



Capstone Project Summary

Fundamental Analysis and Valuation of a Hungarian Mid-Cap Company

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About the Client

Equilor Investment Ltd is a founding member of the Budapest Stock Exchange and has 30-year experience in Capital Markets. It is one of the most prestigious investment service providers in Hungary and the region. It provides professional, personalized, customer-oriented, and comprehensive investment banking services in domestic and foreign securities and foreign exchange transactions to its both institutional and private clients.

The Project Benefits to the Client

The key objective of my capstone project is to deliver **an initiation (equity research) report** for a firm, including a valuation model, which determines the fundamental value of Hungarian mid-cap company.

Equity research provides information about a company, its industry, peer group and market to value a company's stock under different valuation methods. It also examines financials of the business and disclosures to analyze if there are any issues that could impact the future value of a company's share price. Equity research can be applied to make informative investments and acquisition deal in which bid price for the securities of a target company is determined.

Moreover, Equity research plays a crucial role to fill the information gap between the buyer and sellers of shares and improve market efficiency. The reason for this is that individual and institutional investors may not have the same capabilities and resources to analyze every stock in the markets. Therefore, providing detailed and comprehensive equity research for the existing and prospective clients is valuable for Equilor Investment Ltd. and build creditable reputation in the capital market.

Key Outcomes of the Project

I chose and analyzed Masterplast Nyrt for my capstone project. Masterplast Group, founded in 1997, is the largest Hungarian-owned building materials manufacturing company in the Central European region and has 9 subsidiaries in other European countries. The company has key position on the façade insulation system, dry construction system elements and roofing underlays markets.

To value the company, I first read many publicly available information and reports about the company and its businesses. This is the most essential part of the project because I needed to fully understand ongoing changes in company's operations and the market. These factors assist to correctly pick indicators to build valuation model and make future projections based on them.

Investment Case

Masterplast is one of the largest suppliers of building materials in Hungary and CEE. It has three manufacturing factories in Hungary, Serbia and Romania, and produces variety of building materials. These products are divided into 6 different categories which contain further 17 product groups, summing up 200 products all together.

The company plans to become the second largest manufacturer and distributor of fiberglass mesh in the whole European market and the third largest in the global market, and to gain a leading position in the production and sale of roofing foils. Thus, Masterplast aims to steadily expand its market position by further expanding and developing the existing production capacities.

Despite impacts of COVID-19, Masterplast closed a year, 2020, with high profitability and outstanding turnover. The company successfully entered healthcare market after successfully acquiring Germany subsidiary which produces healthcare textiles and some building materials. The company is achieving high turnover in healthcare products sales and its core business. Moreover, the efficiency of company`s own products have been improving year by year and company considers waste management as the essential part of activities.

The company`s performance on ESG factors is also outstanding. Taking into consideration group`s noticeable customer services, operations management and business expansion activities, I expect that Masterplast has high prospect and capability to stand out in the industry and its markets.

Future Growth factors:

- Launch of new healthcare production
- Robust growth in the insulation sector
- Launch of new fiberglass mesh production
- EU regulations towards net-zero
- Efficient production lines and services
- Scale of economy
- Digitalization and greening constructions

Key Financials							
	2019	2020	2021F	2022F	2023F	2024F	2025F
Sales (EUR, mm)	107,1	122,7	150,3	175,1	202,2	222,4	240,3
Growth YOY	10,0%	14,5%	22,5%	16,5%	15,5%	10,0%	8,0%
Gross Profit Margin	19,8%	22,3%	22,9%	22,2%	21,9%	21,9%	21,5%
EBITDA Margin	6,9%	8,8%	12,7%	12,0%	11,7%	11,5%	11,2%
EBIT Margin	4,9%	6,5%	8,9%	8,5%	8,5%	8,5%	8,3%

The main risks for the company`s business are country risk and exchange rate.

Country Risk

The political, macroeconomic and general government financial situation in Central-Eastern, South-Eastern and Eastern European countries have significant influence on the company`s success and business activities. The potential alterations in the political and economic situations may damage its profit generating capacity.

<i>CRP¹</i>	<i>1,0%</i>	<i>1,5%</i>	<i>2,0%</i>	<i>2,5%</i>	<i>3,0%</i>	<i>3,5%</i>
WACC	8,98%	9,38%	9,77%	10,17%	10,57%	10,96%

Exchange Rate Risk

Masterplast makes contracts on a USD and Euro currencies and sells products in the local currencies of its subsidiaries, thus this results in the currency exposure risk for the company. As the currency portfolio of majority subsidiaries, except for Ukraine, is euro-based, the fluctuations in local currencies relative to EUR for sales and EUR/ USD exchange rate movements for procured products have considerable impact on trading activities of Masterplast.

Considering the future perspectives of the company, the effect of industry and macroeconomic environment on company`s business, I build Discounted Cash Flow valuation model. With 12.97% upside share price target in base scenario, a strong HOLD recommendation to Masterplast Nyrt is issued in the interim report.

The Student`s Learning Experience

Conducting capstone project under the supervision of professional investment research analyst was very useful to build realistic model and analyze company and industry in big picture. I have worked on different part of such an equity research when I participated in CFA Research Challenges, and now I am aware of shortcomings of those reports and how to write successful interim report.

Thank to this project, I was able to gain knowledge in building materials industry and the effect of macroeconomic changes in the industry.

The most challenging part of capstone project was to make future projections in the financial statement items. I had to make a lot of assumptions and consider many factors ongoing in the company`s business and compare them with past performance.

¹ Weighted Average Country Risk Premium