

TeraPlast

Buy

Initiation of coverage

Price: RON 0.307

Price target: RON 0.437

Building up

We initiate coverage of TeraPlast with a BUY rating and a price target (PT) of RON 0.437/share, implying 42.4% upside. TeraPlast Group is the largest Romanian construction materials manufacturer, and it has been listed on the Bucharest Stock Exchange since 2008. We like its growth profile, at 13% p.a., on our estimates, over 2019-22E, taking into account a potential slowdown in the construction market in 2021E. The growth should come with some improvement in margins: we forecast the EBITDA margin to reach 10.4% in the medium term, from 9.2% in 2019, driven by improvements in the profitability of its metal tiles business, and dilution of non-raw materials costs. An active dealmaker, we believe that TeraPlast is well-positioned for an acquisition, given its strengthening balance sheet. The company is focused on sub-segments of the construction market with attractive long-term development opportunities, but also some level of protection in the COVID-19 economic slowdown. On our 2020E numbers, TeraPlast is trading at a P/E of 6.4x and an EV/EBITDA of 4.5x, discounts of 69.2% and 40% vs. its peers. We believe it is attractively valued at these multiples.

Revenues to continue growing, despite a slowdown in the overall construction market. Over the next three years, we expect an annual revenue growth rate of 13%. TeraPlast's RON 230m investment programme over the past three years has set it up for its next stage of growth, in our view. We believe its three main segments should show some resilience during the slowdown in the construction market and, combined with TeraPlast's profile, allowing it to grab market share, we expect its growth to continue.

We see some scope to improve profitability. In the medium term, we expect the EBITDA margin to reach 10.4%, from 9.2% in 2019, growing by 20% p.a. over the next three years. In our view, this should be driven by: i) the improving performance of Wetterbest; ii) neutralising operating losses at its joinery profiles business line; iii) lower wage growth; and iv) the dilution of central fixed costs, such as utilities, third parties, and other costs.

Focused on attractive market segments. Water, sewage and gas infrastructure connectivity in Romania is well below the EU average, and is a key pillar of the government's EUR 100bn stimulus plan. Logistics and industrial penetration is lagging its CEE peers as well, but is fast growing, boosted by the dynamic e-commerce sector. Residential developments and, more importantly, refurbishments, have an attractive long-term demand dynamic, with increasing GDP/capita and half the housing stock dating back to the 1970s.

Discount vs. peers. On our 2020E numbers, TeraPlast is trading at a P/E of 6.4x and an EV/EBITDA of 4.5x, discounts of 69.2% and 40% to its peers, and 24% and 15% vs. its three-years historic average, implying an attractive valuation, in our view.

Key risks: macro; raw materials prices; dependency on state infrastructure investments; the sustainability of PVC; leverage; and low liquidity.

Expected events

1H20 results	27 July
1H20 results call	28 July
Free shares capital increase ex-date	17 August
9M20 results	26 October
9M20 results call	27 October

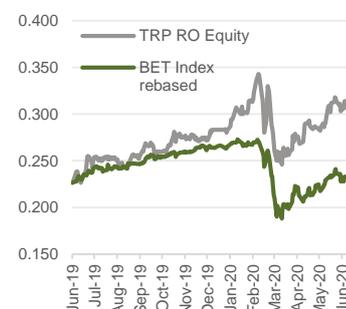
Key data

Market cap	USD 96.1m
Free float	53.2%
3M ADTV	USD 70k
Shares outstanding (m)	1,337.8
Major shareholder	Mr. Dorel Goia (46.8%)
Bloomberg code	TRP RO
BET Index	8,668.1

Price performance

52-w range	0.226-0.343
52-w performance	35.6%
Relative performance	33.3%

TeraPlast 12M share price performance



Year	Sales (RON m)	EBITDA (RON m)	Net profit (RON m)	EPS (RON)	EPS growth	P/E (x)	EV/EBITDA (x)	ROE (%)	DPS (RON)	Dividend yield
2018	806	65	22	0.025	-2.8%	15.0	7.7	9.5%	0.001	0.3%
2019	975	88	38	0.034	33.1%	10.9	6.7	14.7%	0.000	0.0%
2020E	1,118	123	64	0.048	41.5%	6.4	4.5	20.6%	0.000	0.0%
2021E	1,206	122	65	0.049	2.5%	6.3	4.0	17.4%	0.000	0.0%
2022E	1,424	153	94	0.070	43.5%	4.4	3.1	20.5%	0.018	5.7%

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Closing Prices as of 03 July 2020

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Company snapshot – BUY, PT RON 0.437

BUY		SHARE PRICE PERFORMANCE					COMPANY DESCRIPTION												
Bloomberg ticker	TRP RO						<p>TeraPlast Group is the largest Romanian construction materials manufacturer. The company has been listed on the Bucharest Stock Exchange since 2008. The company's two main business segments are steel products (60% of revenues in 2019), such as sandwich panels and metal tiles, and PVC/plastics products (40% of revenues in 2019), such as plastic pipes, PVC windows and doors, and plastic compounds and granules. Its core market is Romania, while 23% of its 2019 revenues were driven by its export business in over 25 countries, mainly in the EU. In 2018, the company acquired the controlling stake in Wetterbest, a leading metal tiles manufacturer. TeraPlast reported revenues of RON 975m in 2019, having grown at a rate of 25% per year since 2015 (16% p.a. growth excluding Wetterbest).</p>												
Closing price (RON)	0.307																		
Price target (RON)	0.437																		
Upside to PT	42.4%																		
Shares outstanding (m)	1,337.8																		
MCAP (RON m)	411																		
Free float	53.2%																		
ADTV (US\$K)	70																		
52 Week Range (RON)	0.226 - 0.343																		
RATIOS																			
PER SHARE RATIOS		2018	2019	2020E	2021E	2022E	VALUATION RATIOS		2018	2019	2020E	2021E	2022E						
EPS	0.025	0.034	0.048	0.049	0.070	P/E	15.0	10.9	6.4	6.3	4.4								
BVPS	0.276	0.246	0.256	0.306	0.378	P/FCF	-11.6	-35.8	9.1	6.2	26.4								
DPS	0.001	0.000	0.000	0.000	0.018	P/BV	1.1	1.2	1.2	1.0	0.8								
FINANCIAL RATIOS		2018	2019	2020E	2021E	2022E	EV/EBITDA	7.7	6.7	4.5	4.0	3.1							
Capex/depreciation	192%	303%	79%	54%	219%	EV/Sales	0.6	0.6	0.5	0.4	0.3								
Capex/net fixed assets	20%	29%	9%	6%	22%	EV/EBIT	14.4	10.8	6.5	5.7	4.1								
Op. cash flow/capex	3.31	0.17	0.13	0.76	2.51	Cash flow from ops, RON m	8	76	75	86	96								
EBITDA margin	8.0%	9.2%	11.0%	10.1%	10.7%	EV, RON m	501	596	552	488	475								
EBIT margin	4.3%	5.6%	7.6%	7.1%	8.2%	FCF, RON m	-28	-11	45	66	16								
Net margin	2.7%	3.9%	5.7%	5.4%	6.6%	FCF yield	-8.6%	-2.8%	11.0%	16.2%	3.8%								
ROE	9.5%	14.7%	20.6%	17.4%	20.5%	Dividend yield	0.3%	0.0%	0.0%	0.0%	5.7%								
ROA	4.0%	5.7%	8.6%	8.3%	11.1%	Dividend payout	4%	0%	0%	0%	25%								
ROIC	6.3%	8.9%	12.7%	12.4%	14.4%	Net debt / EBITDA	2.6	2.1	1.1	0.6	0.4								
Net debt/(cash) to equity+minorities	71.5%	66.2%	40.2%	17.4%	11.0%	COMPANY FINANCIALS													
Net debt/adj. EBITDA	2.60	2.09	1.12	0.58	0.36	INCOME STATEMENT (RONm)		2018	2019	2020E	2021E	2022E	BALANCE SHEET (RONm)		2018	2019	2020E	2021E	2022E
WC/Sales	22%	16%	16%	17%	17%	Revenues	806	975	1,118	1,206	1,424	Fixed Assets	294	342	334	316	360		
EBITDA breakdown							Steel segment	484	580	659	686	825	Inventories	194	182	195	224	281	
EBITDA	64.9	89.2	123.0	122.5	152.9	Plastics segment	322	394	459	521	599	Trade and other receivables	127	139	184	192	215		
Steel segment	41.0	51.0	64.7	62.2	81.0	Other revenues	2	2	0	0	0	Cash and bank balances	23	29	75	51	52		
Heat insulated joinery / Sandwich panels	26.4	36.8	39.9	35.2	42.9	Raw materials	-605	-698	-790	-860	-1,025	Current Assets	346	352	455	469	549		
Metal tiles	14.6	14.2	24.8	27.0	38.0	Gross profit	201	277	328	347	399	Total Assets	642	693	789	785	909		
Plastics segment	23.9	38.2	58.2	60.3	72.0	Employee benefit expenses	-68	-86	-96	-106	-114	Equity	238	276	342	409	506		
Installations and fittings	9.9	25.1	42.0	46.5	58.6	Depreciation	-31	-33	-38	-37	-36	LT Loans	71	62.93	62.93	22.93	17.93		
Joinery profiles	3.5	4.1	7.4	6.8	7.1	Other expenses	-67	-103	-109	-118	-132	LT Liabilities	134	96	96	56	51		
Granules (Compounds)	7.3	7.6	8.0	6.5	6.0	EBITDA	65	88	123	122	153	Trade and other payables	145	166	195	212	253		
PVC Windows and doors	3.2	1.4	0.9	0.4	0.4	Operating result	35	55	85	85	116	ST Loans	122	149	149	99	89		
Margins						Financial result	-9	-10	-9	-7	-3	ST Liabilities	270	321	351	320	352		
Steel segment	8.5%	8.8%	9.8%	9.1%	9.8%	Profit before tax	26	45	76	78	113	Total Equity and Liabilities	642	693	789	785	909		
Plastics segment	7.4%	9.7%	12.7%	11.6%	12.0%	Income tax expense	-4	-6	-10	-11	-16	Net debt	170	183	138	71	56		
CHARTS							Non-controlling interests	1	1	2	2	3	Net working capital	-73	23	-30	-20	-39	
CASH FLOW STATEMENT (RON)							Profit for equity holders	22	38	64	65	94	Net profit	26	45	76	78	113	
Operating Cash Flow							EBITDA	64.9	89.2	123.0	122.5	152.9	Depreciation	31	33	38	37	36	
Investment Cash Flow							Steel segment	41.0	51.0	64.7	62.2	81.0	Working capital change and oth	-73	23	-30	-20	-39	
Free Cash Flow							Heat insulated joinery / Sandwich panels	26.4	36.8	39.9	35.2	42.9	Other adjustments	24	-25	-9	-9	-15	
Change in Cash balance							Metal tiles	14.6	14.2	24.8	27.0	38.0	Operating Cash Flow	8	76	75	86	96	
Operating Cash Flow							Plastics segment	23.9	38.2	58.2	60.3	72.0	Investment Cash Flow	-36	-87	-30	-20	-80	
Capex							Installations and fittings	9.9	25.1	42.0	46.5	58.6	Free Cash Flow	-28	-11	45	66	16	
Free Cash Flow							Joinery profiles	3.5	4.1	7.4	6.8	7.1	Dividends paid	-11	-1	0	0	0	
Margin							Granules (Compounds)	7.3	7.6	8.0	6.5	6.0	Increase in debt	59	19	0	-90	-15	
Operating Cash Flow							PVC Windows and doors	3.2	1.4	0.9	0.4	0.4	Financing Cash Flow	39	18	0	-90	-15	
Capex							Margins						Change in Cash balance	11	7	45	-24	1	
Free Cash Flow							Steel segment	8.5%	8.8%	9.8%	9.1%	9.8%	CHARTS						
Change in Cash balance							Plastics segment	7.4%	9.7%	12.7%	11.6%	12.0%							

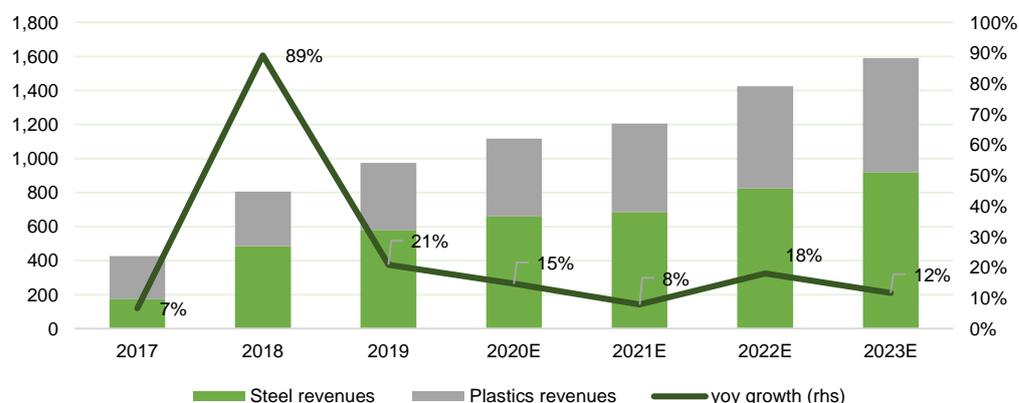
Investment case

We initiate coverage of TeraPlast with a BUY rating and a price target (PT) of RON 0.437/share, implying 42.4% upside. TeraPlast Group is the largest Romanian construction materials manufacturer, and it has been listed on the Bucharest Stock Exchange since 2008. We like TeraPlast for its focus on growth, both organically and through acquisitions. Over 2015-19, the company grew by 25% p.a. (16% excluding the Wetterbest acquisition), to achieve revenues of RON 975m. After three years of an intensive investment programme, totalling RON 230m, we believe the company is set to continue its dynamic expansion. We expect revenues growth of 13% p.a. over 2019-22E, taking into account a potential slowdown in the construction market in 2021E. With FCF generation of around RON 45-65m over the next two years, driven by low capex, we expect it to achieve a net debt/EBITDA of 0.6x in 2021E, a comfortable level for pursuing acquisitions. The growth should come with some improvement in margins: we forecast the EBITDA margin to reach 10.4% in the medium term, from 9.2% in 2019, driven by improvements in the profitability of its metal tiles business, and dilution of its non-raw-materials costs. This drives our EBITDA forecast of 20% annual growth over the next three years.

The company is focused on sub-segments of the construction market with attractive development opportunities. Romania's water, gas and sewage connectivity, as well as logistics and industrial real estate penetration, trail the other European countries significantly, but they are catching up fast. The government's EUR 100bn stimulus plan should act as a development tailwind, in our view. The residential market, with half of the country's dwellings built before 1970, is facing increased demand for both new developments and refurbishments. We also believe that these three segments should be less affected by a slowdown in the construction market due to the COVID-19 pandemic, particularly infrastructure, where we see the fast growth continuing. On our 2020E numbers, TeraPlast is trading at a P/E of 6.4x and an EV/EBITDA of 4.5x, discounts of 69.2% and 40% vs. its peers, and below its three-year averages by 24% and 15%, respectively. We believe the company is attractively valued at these multiples.

Revenues to continue growing, despite a slowdown in the overall construction market. Despite expanding by 25% p.a. over the past four years, and a slowdown in the construction market due to the pandemic, we believe TeraPlast is likely to continue posting decent growth. We expect revenues to improve by 15% in 2020E, while we pencil in a slowdown to 8% in 2021E, driven by the impact of the COVID-19 pandemic on the construction market, factoring in a delay (assuming that the ongoing projects in 2020E will still be completed). We forecast revenues of RON 1.1bn in 2020E, RON 1.2bn in 2021E and RON 1.4bn in 2022E, when growth should reaccelerate, in our view. Over the next three years, we expect an annual growth rate of 13%. The company's RON 230m investment programme, over the past three years, has set it up for its next stage of expansion, in our view. We believe that TeraPlast's three main segments should show some resilience during the slowdown in the construction market and, combined with TeraPlast's size, balance sheet and diversified business, allowing it to grab market share, we expect its growth to continue.

Revenue dynamics (RON m)

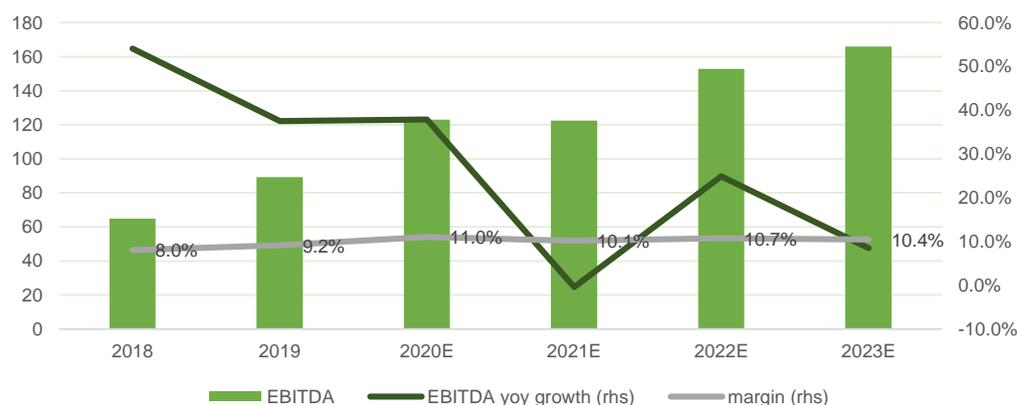


Source: Company data, WOOD Research

We see some scope to improve profitability. We expect EBITDA to reach RON 123m in 2020E, a 37.9% yoy increase, at a margin of 11% and a 180bps improvement vs. the previous year. This is driven mainly by the higher profitability than normal that we expect in 2020E, on the back of falling prices for raw materials. In the medium term, we expect the EBITDA margin to reach 10.4%, from 9.2% in 2019, growing 20% p.a. over the next three years. In our view, this should be driven by: i) the improving performance of its metal tiles (Wetterbest) business line, driven by supply chain and production

efficiencies; ii) neutralising operating losses at its joinery profiles business line; iii) lower wage growth, with employee costs as a percentage of revenues reaching 8.3-8.4% in the medium term, from 8.8% in 2019; and iv) the dilution of central fixed costs, such as utilities, third parties, and other costs.

EBITDA dynamics (RON m)



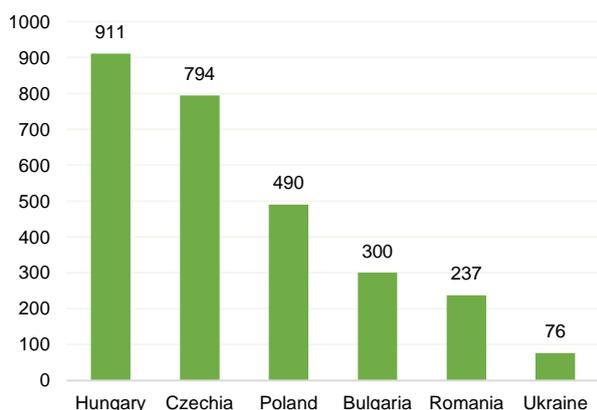
Source: Company data, WOOD Research

Focused on attractive market segments... The company's three main business lines (84% of revenues in 2019) – sandwich panels, metal tiles, and installations – targeting mainly the industrial and logistics, residential, and infrastructure segments, respectively. While Romania has developed its water, sewage, and gas infrastructure networks extensively over the past five years, there is still a lot of room to grow. In 2018, 26% of Romanian households did not have access to either water or sewage, compared to the 2% EU-27 average. Meanwhile, in 2017, 39% of Romanian households' final energy consumption came from renewables and waste, with the large majority of it being wood, compared to 20% for the EU-27 average. We see this as a proxy for gas connectivity, with the Romanian PM recently quoting that less than one-third of households are connected to gas in Romania.

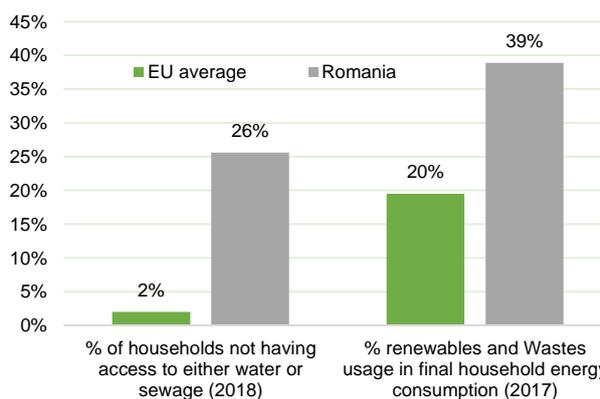
Looking at logistics space penetration compared to other countries in the region, Romania still has significant potential, with its low e-commerce penetration being one of the drivers. Both these segments should be supported by the EUR 100bn economic stimulus plan.

The Romanian residential real estate market grew at an annual rate of 8.7% over 2015-19, driven by an increase in GDP/capita, and a high ratio of dwellings built before 1970. The need for new developments is there in the long term, while repairs, particularly roofs (in 2018, 29.4% of households reported leaks through roofs, walls and floors), should show resilience in the short term, as well.

Logistics spaces (sqm/1000people)



Water, sewage, and gas connectivity proxies



Source: Eurostat, JLL, C&W Echinox, Colliers, WOOD Research

...and attractively valued. TeraPlast is trading currently at a trailing P/E of 10.5x, 24% below its three-year average, and close to 1 standard deviation below its average. On trailing EV/EBITDA, it trades at 7.2x, 15% below its three-year average. We expect growth of 69% in net income in 2020E and growth of 38% in EBITDA in 2020E, implying 2020E multiples of 6.4x P/E and 4.5x EV/EBITDA, on our numbers.

TeraPlast trades at steep discounts to its global peers on both our 2020E P/E of 6.4x and EV/EBITDA of 4.5x, at 69.2% and 40%, respectively. At the same time, the company's 2019 EBITDA margin is lagging its global peer group. In terms of revenues, the Bloomberg consensus expects a fall in revenues across 2019-21E, which we attribute largely to the effects of the pandemic. We believe that one of the reasons TeraPlast stands out is its exposure to sub-segments of the construction market that are more resilient to a general slowdown in construction.

Trailing P/E



Trailing EV/EBITDA



Source: Bloomberg, WOOD Research

Valuation

Our valuation for TeraPlast is based solely on our DCF calculations. As the company is not a traditional dividend payer, and we have not identified any close relevant peers, we believe a DCF is the most relevant method. We arrive at a 12-month valuation of RON 585m, resulting in a PT of RON 0.437/share, implying 42.4% upside. We rate TeraPlast a BUY.

Valuation summary

	Equity value (RON m)	Per share (RON)
DCF 12-month valuation	585	0.437
Current price		0.307
Upside		42.4%

Source: WOOD Research

DCF

We base our DCF valuation on the following assumptions:

- ✓ A WACC of 9.7% over our forecast period, taking into account a 56.5% equity/43.5% debt capital structure. Our WACC inputs are:
 - a) A risk free rate (RFR) of 5%.
 - b) An equity risk premium (ERP) of 5%.
 - c) An unlevered beta of 1.0x and a levered beta of 1.6x.
 - d) A pre-tax cost of debt of 6% and a tax rate of 16%.
- ✓ A terminal growth rate of 2.0%.

DCF valuation

RON m	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
EBIT	55	85	85	116	124	128	130	134	137	130	126
Corporate Tax Rate [T]	13.1%	13.5%	14.0%	14.5%	15.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
EBIT*(1-T)=NOPAT	48	74	73	100	105	108	109	113	115	109	106
Depreciation & amortisation	33	38	37	36	42	46	50	54	59	65	70
Cash from working capital	23	-30	-20	-39	-28	-22	-19	-16	-12	-9	-9
CAPEX [I]	-99	-30	-20	-80	-65	-75	-80	-90	-95	-100	-105
Unleveraged free cash flow [FCF]	4	52	71	17	54	57	60	61	68	65	61
Discount factor		0.96	0.87	0.79	0.72	0.66	0.60	0.55	0.50	0.46	0.42
Present Value of FCFs [PV:FCF]		50	62	13	39	38	36	34	34	30	26
Sum of [PV:FCF]		360									
Long term FCF growth rate		2.0%									
Residual value at horizon		814									
PV of residual value		339									
Net debt		183									
Equity value		517									
12M Equity Value		585									
Number of shares		1,338									
12M price target		0.437									

Source: WOOD Research

WACC calculations

WACC	2020-29E
Unlevered beta	1.0
Levered beta	1.6
Risk free rate	5.00%
Market premium	5.00%
Cost of equity	13.2%
Cost of debt pre tax	6.0%
Marg. tax rate	16.0%
Cost of debt after tax	5.0%
Weight k(e)	56.5%
Weight k(d)	43.5%
WACC %	9.7%

Source: WOOD Research

Peer multiples

We have not identified any close peers for TeraPlast in our region, but we show a comparison to a range of global peers from both the emerging and developed markets below. TeraPlast trades at steep discounts on both our 2020E P/E of 6.4x and EV/EBITDA of 4.5x, at 69.2% and 40%, respectively. At the same time, the company's 2019 EBITDA margin is lagging its global peer group. In terms of revenues, the Bloomberg consensus expects a fall in revenues across 2019-21E, which we attribute largely to the effects of the pandemic. We believe that one of the reasons TeraPlast stands out is its exposure to sub-segments of the construction market that are more resilient to a general slowdown in construction. The company's recent 1H20E growth guidance of c.15% highlights this, despite the lockdown affecting construction directly through social distancing measures. We believe the comparison to its peers highlights TeraPlast as attractively valued at current market prices.

Peer multiples

Ticker	Company	Country	Market cap		P/E			EV/EBITDA			EBITDA margin 2019	Revenues growth 2019-21E
			(EURm)	2019	2020E	2021E	2019	2020E	2021E			
KSP ID	KINGSPAN GROUP PLC	IR	10,574	27.8	36.6	31.2	18.9	23.1	20.2	26%	15%	
OC US	OWENS CORNING	US	5,192	11.8	21.0	14.4	n.a.	n.a.	n.a.	20%	16%	
SSD US	SIMPSON MANUFACTURING	US	3,167	28.0	34.8	29.3	n.a.	n.a.	n.a.	12%	n.a.	
FBU NZ	FLETCHER BUILDING LTD	NZ	1,682	8.2	20.9	17.9	6.5	8.0	7.6	18%	-5%	
CSR AU	CSR LTD	AU	1,109	10.1	15.4	14.9	5.5	6.9	6.7	16%	-1%	
300715 CH	JIANGSU CANLON BUILDING	CH	858	49.5	28.1	18.0	n.a.	20.0	13.2	17%	60%	
4212 JP	SEKISUI JUSHI CORP	JN	834	14.1	n.a.	n.a.	n.a.	n.a.	n.a.	17%	-3%	
002108 CH	CANGZHOU MINGZHU PLASTIC	CH	650	24.3	n.a.	n.a.	11.4	n.a.	n.a.	20%	-2%	
GWN IN	GRINDWELL NORTON LTD	IN	643	31.5	28.8	31.7	17.2	18.0	19.8	13%	-1%	
TRKCM TI	TRAKYA CAM SANAYII AS	TU	604	6.0	4.0	3.4	1.5	1.4	1.1	19%	-3%	
ANACM TI	ANADOLU CAM SANAYII AS	TU	476	7.0	9.8	7.1	2.6	2.4	2.0	12%	-7%	
VGC VN	VIGLACERA CORP JSC	VN	352	14.3	14.3	13.1	6.0	6.1	7.2	17%	n.a.	
RAKCEC UH	RAS AL KHAIMAH CERAMICS	UA	316	7.7	-32.8	14.6	n.a.	n.a.	n.a.	8%	-9%	
	Median			14.1	20.9	14.9	6.2	7.5	7.4	17%	-2%	
TRP RO	TeraPlast	RO	85	10.9	6.4	6.3	6.7	4.5	4.0	9%	11%	
	discount/premium to all peers			-23.0%	-69.2%	-57.9%	6.9%	-40.0%	-46.4%	-7.8%	13.1%	

Source: Bloomberg, WOOD Research

Company description

TeraPlast Group is the largest Romanian construction materials manufacturer, and it has been listed on the Bucharest Stock Exchange since 2008. The company's two main business segments are steel products (60% of revenues in 2019), such as sandwich panels and metal tiles; and PVC/plastics products (40% of revenues in 2019), such as plastic pipes, PVC windows and doors, and plastic compounds and granules. Its core market is Romania, while 23% of its 2019 revenues were driven by its export business to over 25 countries, mainly in the EU. The company's production sites span 330k sqm, mainly in Romania, and it opened its first manufacturing point abroad in 2017, TeraSteel Serbia, producing sandwich panels. The company has been acquiring businesses actively throughout its history, and it gained a controlling stake in Wetterbest in 2018, a leading metal tiles manufacturer in Romania, fully consolidating the stake this year, and representing 28% of revenues in 2019. TeraPlast reported revenues of RON 975m in 2019, having grown at a rate of 25% p.a. since 2015 (16% p.a. excluding Wetterbest), and reported an EBITDA margin of 9.2% last year.

History. TeraPlast Group has over 120 years of history and, since its beginnings, it has developed to become the leading construction materials manufacturer in Romania.

- ✓ 1896 – the first ceramic tiles workshop is set up in Bistrita.
- ✓ 1978 – commissioning of the first extrusion line for PVC pipes.
- ✓ 1979 – commissioning of the granules line.
- ✓ 1990 – TeraPlast is established, spinning off from Materiale de Constructii Bistrita.
- ✓ 1992 – TeraPlast signs an agreement with GemencPlast in Hungary, in order to start exporting.
- ✓ 1996 – Commissioning of the first polyethylene pipes for water and gas in Romania.
- ✓ 2004 – TeraPlast starts producing insulating glass windows and five-chamber profiles.
- ✓ 2007 – TeraPlast acquires 70.4% of Plastsistem, producing isolating panels.
- ✓ 2008 – TeraPlast lists a 20% stake on the Bucharest Stock Exchange.
- ✓ 2009 – Commissioning of the polyolefin factory.
- ✓ 2011 – relocation to the TeraPlast Industrial Park, Bistrita.
- ✓ 2013 – commissioning of galvanised steel purlins production.
- ✓ 2016 – TeraPlast Hungary is set up as a distribution centre in order to boost exports.
- ✓ 2017 – TeraSteel Serbia is inaugurated, doubling the production capacity of sandwich panels. The company acquires a majority stake in Wetterbest and 50% of Politub, reaching a 99.99% stake.
- ✓ 2019-20 – TeraPlast achieves a 100% stake in Wetterbest, and invests over EUR 20m in expanding production capacity.

Business lines. TeraPlast's activity is diversified across different segments of the construction market, with its three main business lines (c.84% of revenues), sandwich panels, metal tiles, and installations, targeting mainly the industrial and logistics, residential and infrastructure segments, respectively.

Teraplast: lines of activity

Division	Company	Business line	Addressable segments	Products	2019 % of sales/% of EBITDA/yoy growth	Comment
Steel	TeraSteel	Sandwich panels	Industrial/logistics/commercial	Sandwich panels Turnkey halls	31.8%/41.3%/18.0%	Producing in Romania and Serbia Selling in 25 countries, exports 58% of revenues
Steel	Wetterbest	Metal tiles	Residential	Metallic roof tiles profiles	27.7%/15.9%/22.1%	10m sqm production capacity 2 nd -largest player in Romanian market
Plastics	TeraPlast	Installations	Infrastructure	External and interior sewerage Water and gas transport and distribution systems	24.6%/28.1%/38.2%	Leader in external sewerage, 2 nd player in installations
Plastics	TeraPlast	Joinery profiles	Manufacturing	Window profiles systems	6.3%/4.6%/8.5%	8% market share in Romania
Plastics	TeraPlast	Compounds	Manufacturing	Used in the moulding industry	6.6%/8.5%/1.6%	Leader in Romania, with 34% market share
Plastics	TeraGlass	PVC windows and doors	Residential/non-residential	Windows and Doors made of PVC and Aluminium	3.0%/1.6%/-0.1%	Largest exporter of the group, exports 80% of revenues
Plastics	TeraPlast recycling	Recycling	Manufacturing	PVC recycling		Largest in Romania and Top-10 in Europe for rigid PVC recycling, with 12kt capacity

Source: Teraplast, WOOD Research

Geographical footprint. TeraPlast's production facilities are concentrated in Romania; although, since 2017, it has expanded into Serbia as well, through its TeraSteel unit. Steel and plastics final products have high transportation costs, relative to the value of one shipment; therefore, proximity is a very important factor in attaining a competitive advantage. Based on our understanding, a range of approximately 400km from the production plant is optimal for a large proportion of its products, which gives TeraPlast a strong presence in Romania and Serbia, and across broader CEE.

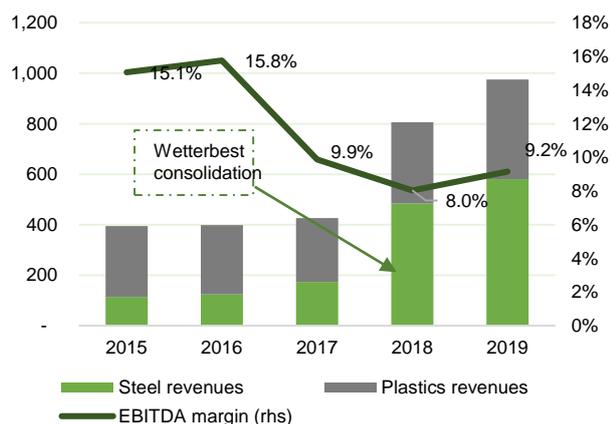
TeraPlast's geographical footprint



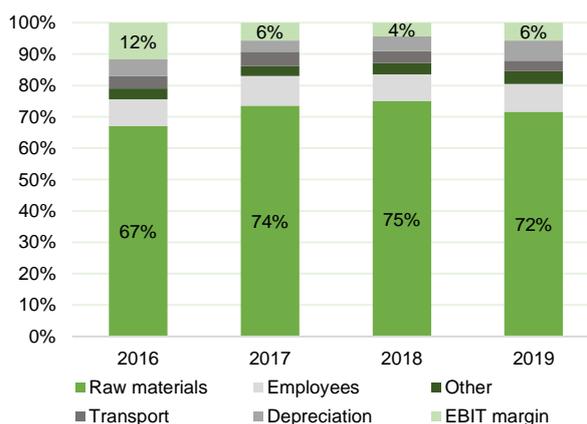
Source: TeraPlast, WOOD Research

Revenues and cost dynamics. TeraPlast has shown impressive growth in the past four years, both organically and through acquisitions. In 2019, it reported revenues of RON 975m, 2.5x higher than in 2015, increasing at a 25% growth rate p.a. This includes the acquisition of Wetterbest, which represented 28% of revenues in 2019: if we exclude that, the annual growth over the past four years stands at 16%. The fast growth and expansion that the company has embarked on, in the recent past, has also come with pressure on margins, with its EBITDA margin falling from 15.1% in 2015, to 8% in 2018 and 9.2% in 2019. The cost structure in its industry is tilted heavily towards raw materials, which represented 67-75% of its revenues over the past four years. If we add transport costs to raw materials, the total variable costs as a percentage of revenues have averaged 76% over the past four years, with an average operating profit margin of 7%. This implies a low level of c.15% of fixed costs. Therefore, supply chain management efficiency is a key part of the business and, given its diversification across several business lines that use the same raw materials, it is well-positioned compared to its competitors, in our view.

Revenue dynamics (RON m)



Cost structure (%)



Source: Company data, WOOD Research

Management and board

The company has a five-member board, with one independent non-executive director, and only the CEO as both a board member and part of its management team.

Mr. Dorel Goia, Chairman of the Board. Mr. Goia has been the Chairman of the Board since 2008, and is the largest shareholder of the company, with a 46.8% stake.

Mr. Razvan Lefter, Non-executive Director. Mr. Lefter has been a board member since 2014, supported by the KJK Capital Investment fund, a shareholder with a 10% stake. Mr. Lefter holds board positions in Sphera Franchise Group (Romania), Mundus Services (Bulgaria), and Eurohold (Bulgaria), and has extensive experience in the capital markets. Mr. Lefter is a CFA Charterholder.

Ms. Magda Palfi, Non-executive Director. Ms Palfi has been a board member since 2008, and has 29 years of experience in banking. She is currently a regional director at Raiffeisen Romania.

Mr. Liviu Ciupe, Independent Non-executive Director. Mr. Ciupe has been a board member since 2019, with over 30 years' experience in the industrial field. He is currently Chairman of Rematinvest SRL.

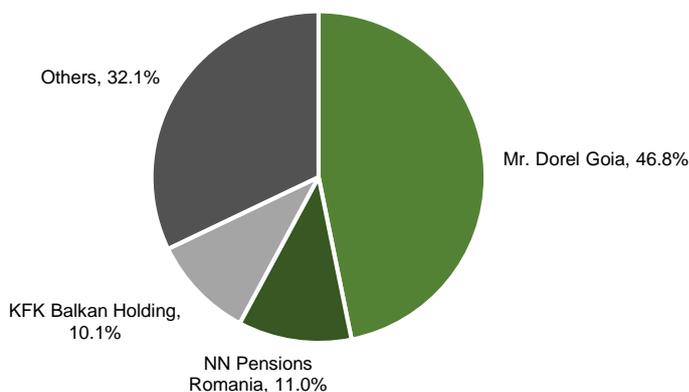
Mr. Alexandru Stanean, CEO and Executive Director. Mr. Stanean has been in his current position since July 2018, and his mandate was renewed for four years starting in July 2020. He joined TeraPlast in 2007, and was part of the team responsible for the IPO of the company.

Ms. Ioana Birta, CFO. Ms. Birta has been in her current position since June 2017, has over 10 years' experience in the audit part of The Big 4, and is an ACCA member.

Shareholder structure

Shareholders. Mr. Dorel Goia, the Chairman, owns 46.8% of the company. We consider the remaining 53.2% as free float and, if we exclude all shareholders above 10%, 32.1% of the shares remain owned by other shareholders.

Teraplast: shareholder structure



Source: Bucharest Stock Exchange, WOOD Research

Market

With a diversified product offering, TeraPlast is present in various different sub-categories of the construction market. Its three main business lines – sandwich panels, metals tiles, and installations – target the industrial and logistics, residential and infrastructure segments, respectively, and we focus on these in this section of the report, although the company is exposed to the entire construction market.

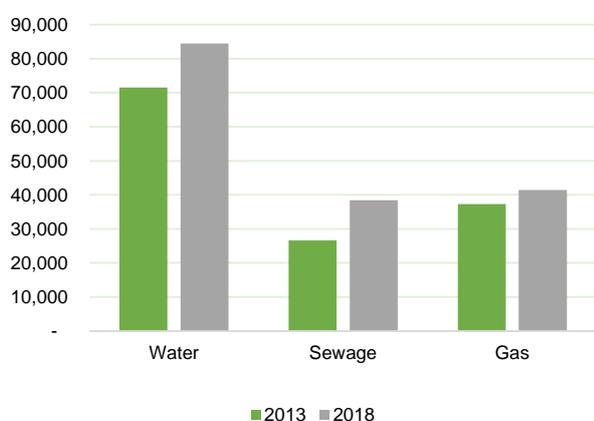
The Romanian construction market, as a whole, has been dynamic over the past few years, reaching EUR 20.7bn in 2019, having grown 4.7% p.a. over the past four years. Looking at the sub-segments, the residential market grew by 8.7% over the same period, to 4.7%, while the non-residential market expanded 10.4% to EUR 7.7bn, with a significant slowdown in infrastructure and civil engineering over the period. Going forward, we expect 2021E to be the year when the effects of the pandemic are most visible in the construction market, as 2020E includes planned projects that are still ongoing. We believe the dynamics should be mixed across sub-segments, however. Offices, residential and commercial real estate development are likely to be the most affected, in our view, while the industrial, logistics, and infrastructure spaces should show resilience, and potentially even positive dynamics, driven by the extensive government programme of EUR 100bn, as a stimulus to restart the economy post the pandemic.

Economic stimulus plan of EUR 100bn over the next 10 years. At the beginning of July, the Romanian government announced an extensive plan aimed at stimulating and relaunching the economy in the context of the COVID-19 pandemic lockdown. The plan does carry a high degree of uncertainty in terms of execution, given that historical efforts have disappointed, but the financial stimulus coming from the EU could act as a tailwind. While not in its final form, Romania could benefit from EUR 33bn of EU funds attributed to relaunching the economy, and EUR 80bn allocated for the 2021-27E budget period. The investment grants that should become available, to the tune of EUR 7bn, could stimulate industrial development. One of the government's proposals, in terms of direct investments, would have a positive impact on the segments to which TeraPlast is exposed:

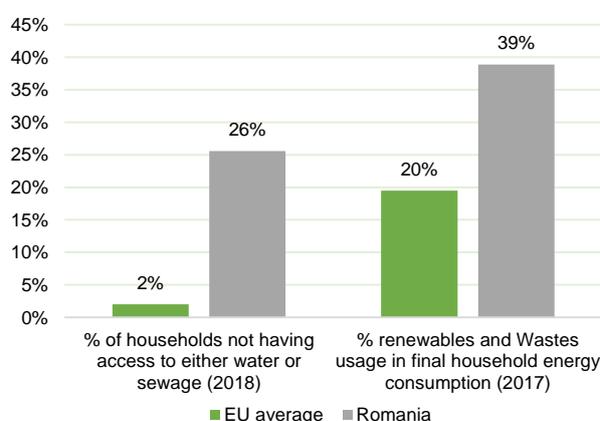
- ✓ Local development (roads, water, sewage and gas access) – EUR 8.2bn.

Infrastructure. Through its installations and fittings division (25% of 2019 revenues), TeraPlast is one of the largest players in the Romanian plastic pipes for the infrastructure market, used for water, sewage, and gas connectivity, which was estimated at c.EUR 240m in 2018 by InterBiz. In 2015, the percentage of the population connected to the public sewage system was 47.8%, while connection to the public water system stood at 63.7%, according to the National Statistics Institute. While Romania has developed these three infrastructure networks extensively in the past five years, increasing its network length by 18% for water, 45% for sewage, and 11% for gas, there is still a lot of room to grow. Recent comparable data across the EU on infrastructure connectivity are not available; therefore, we use proxies to understand the gap. In 2018, 26% of Romanian households did not have access to either water or sewage, compared to the 2% EU-27 average. Moreover, in 2017, 39% of Romanian households' final energy consumption came from renewables and waste, with the large majority being wood, compared to 20% for the EU-27 average. This supports recent statements from the Romanian PM, Mr. Ludovic Orban, saying that only 33% of Romanian households are connected to the gas network, compared to 90% in Hungary.

Infrastructure length (km)



Water, sewage, and gas connectivity proxies



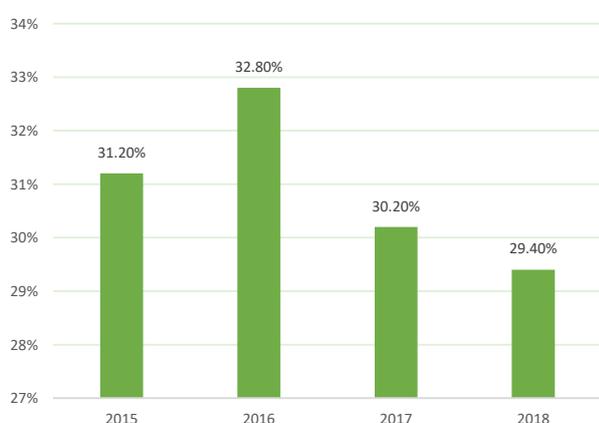
Source: INS, Electrica, Enel, E.ON, CEZ, Eurostat, WOOD Research

Residential real estate. The company's metal tiles division, operating under the Wetterbest brand, is exposed mainly to the residential market and represented 28% of TeraPlast's sales in 2019. The Romanian residential development market has been growing rapidly in the past few years, with

construction volumes up 28.5% at 11M19. Apart from an increase in GDP/capita, the high ratio of dwellings built before 1970, at 49% (one of the highest in the EU), according to the Romanian National Statistics Institute, is one of the drivers for new buildings. We do expect a slowdown in residential development over 2021-22E, driven by a combination of the pandemic's hit on the economy, and the high stock delivered in the past few years. According to TeraPlast's management, however, a large portion of the revenues from metal tiles is actually derived from repairs, rather than new builds, in a ratio of c.2:1. While statistics on repairs are difficult to find, due to the large number of repair types that do not need construction authorisation in Romania, we believe there is still room for growth. The Romanian National Statistics Institute data indicates that, in 2018, 29.4% of households reported leaks through roofs, walls and floors, down only slightly from 31.2% in 2015. Over the same period, Neomar Consulting estimated that the Romanian roofing market had grown by 9.2%, to EUR 214m in 2018, and metal tiles represented 66% of the market. We believe that, even in a scenario of a sharp slowdown in new developments, the market for roof replacement should show some resilience.

Wetterbest is the second-largest player in the market, with an 11% market share in 1H19, less than half the size of the market leader, Bilka, with a 26% share. The market is consolidated, to an extent, with the Top-3 players claiming a 44% market share in 1H19, and the Top-10 at 74%. Wetterbest does have room to grab market share from smaller players, while it is trailing the market leader significantly in terms of profitability, with an EBITDA margin of 4.6% vs. 10.9%, respectively, despite similar price levels.

Problems affecting households, roof/walls/floor leaks Wetterbest comparison to its closest local peer

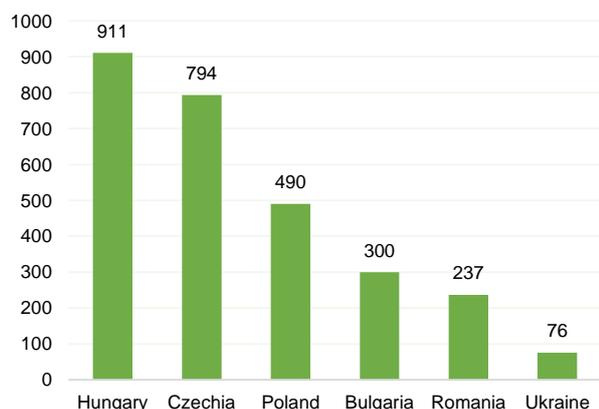


RONm, 1H19	Wetterbest	Bilka
Revenues	109	248
Market share	11%	26%
Gross margin	20.5%	23.3%
Employees cost % of revenues	7.2%	5.5%
Revenue (RONk) / employee	390.5	656.7
EBITDA margin	4.6%	10.9%

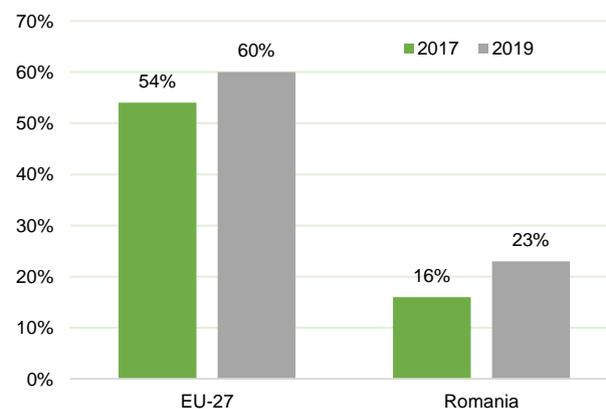
Source: INS, Company data, EMIS, WOOD Research

Logistics and industrial real estate. TeraSteel, the company's subsidiary, which produces sandwich panels and turnkey halls, is exposed directly to this segment of the real estate market; and, in 2019, this was the largest contributor to the group's turnover, at 32%. According to Cushman & Wakefield Echinex, the stock of modern logistics and industrial real estate in Romania stood at 4.3-4.6m sqm at the end of last year, with close to half of this in Bucharest. The firm estimates that this should grow to 5m sqm by the middle of 2021E, while 200k sqm were delivered in 1H20E. Looking at logistics space penetration compared to other countries in the region, Romania still has significant potential. e-commerce penetration is one of the drivers, particularly as Romania lags behind its peers, at 23% in 2019, albeit growing faster than the EU average, increasing by 7% over the past two years.

Logistics spaces (sqm/1,000people)



e-commerce penetration (%)

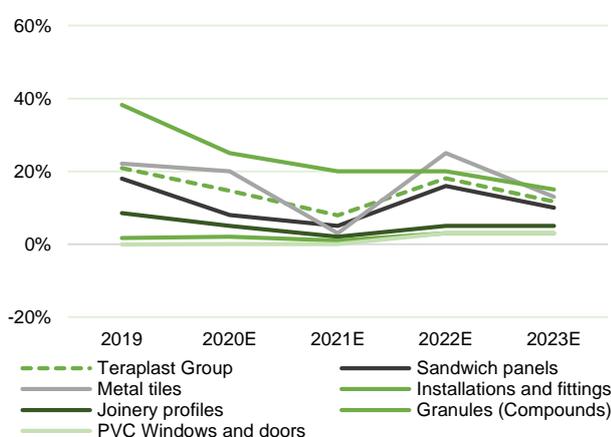


Source: Statista, JLL, C&W Echinex, Colliers, WOOD Research

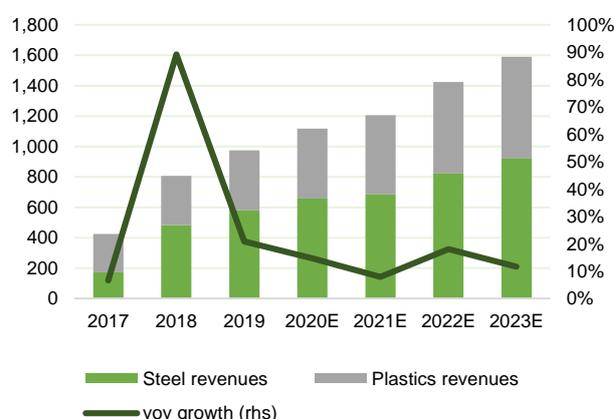
Financial forecasts

Revenues. We expect TeraPlast's business to continue to post a decent growth rate in 2020E, at 15% for the group. We take into account the company's latest guidance of RON 478m for 1H20E, which implies 15% yoy growth compared to 1H19, despite lockdown measures directly affecting some construction through social distancing measures, and assume some weakness in the 2H20E results. We pencil in a slowdown to 8% in 2021E, driven by the impact of the COVID-19 pandemic on the construction market, factoring in a delay (assuming ongoing projects still to be completed). For 2020E, we expect revenues of RON 1.1bn, followed by RON 1.2bn in 2021E and RON 1.4bn in 2022E, when we see a return to faster growth, following the weaker 2021E. Over the next three years, we forecast revenue expansion of 13% p.a. We believe TeraPlast's diversified business is more resilient to a sharp slowdown in the overall construction market, as its three core business lines (84% of revenues) all have some form of protection: i) the metal tiles business is focused on refurbishment, rather than new development; ii) installations and fittings should benefit from the increase in infrastructure spending by the government; and iii) TeraSteel's sandwich panel business, focused on industrial and logistics real estate, should see some resilience, driven by investment grants from the government for new industrial developments, and e-commerce stimulating further logistics development.

Growth by business line



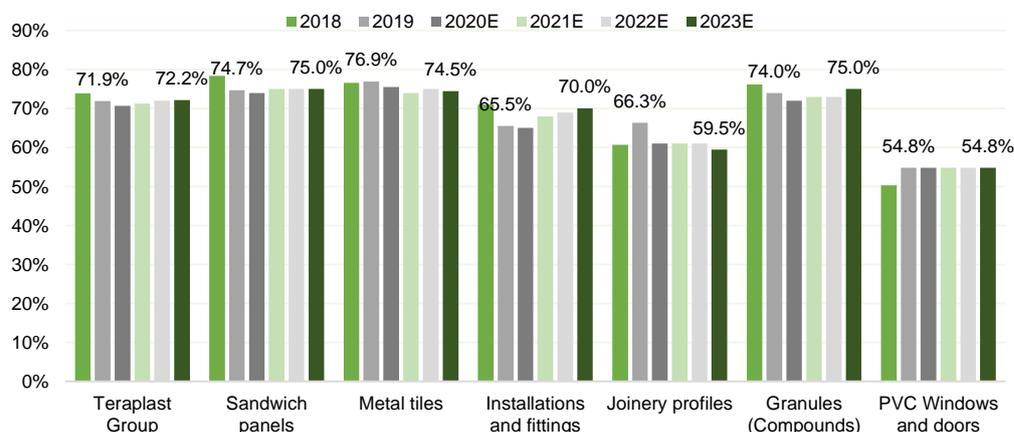
2017-22E growth dynamics (RON m)



Source: Company data, WOOD Research

Raw materials. This is the single-biggest cost item for the business, at 71.9% in 2019, varying across the company's business lines. We expect to see an improvement to 70.7% in 2020E, driven mainly by the prices of raw materials falling sharply, between 5-15% ytd. The prices of final products adjust with a time lag, however, if we use the 2008-09 period as a benchmark, so TeraPlast could boost its profitability this year. In the medium term, we expect a stable gross margin, with raw materials cost as a percentage of revenues climbing only slightly, to 72.2% in 2023E. We also anticipate that the metal tiles business should improve its margin, on the back of post-consolidation cost efficiencies with TeraSteel, and due to the finalisation of its new metal tiles production plant, at the beginning of this year. On the other hand, we pencil in some margin erosion in its installation business, towards 70% in the medium term, from 65.5% in 2019, taking a conservative view on its development, given the higher profitability than normal last year.

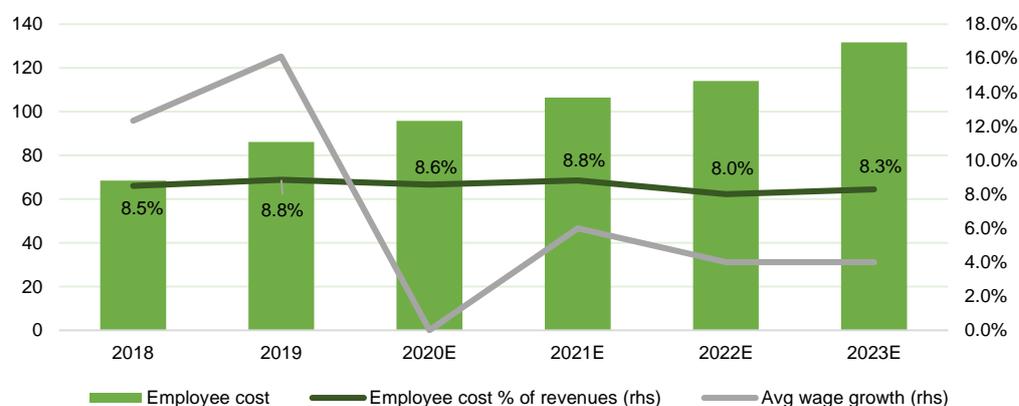
Raw materials as a % of revenues



Source: Company data, WOOD Research

Employee costs. These represent the second-largest cost item for TeraPlast, at 8.8% of revenues in 2019. We expect no growth in wages in 2020E, following the company's decision to abandon its layoff plan, then some moderate growth in the medium term, but not to the extent experienced in the past. We base our assumption on the shifting dynamics, from a very low unemployment labour market, to higher unemployment, combined with Romanian workers having returned from abroad during the pandemic (c.1.3m, according to the Prime Minister). We expect employee costs as a percentage of revenues to move towards 8.3-8.4% in the medium term, with the average sales per employee ratio climbing to RON 1.05m, from RON 0.9m in 2019.

Employee cost dynamics (RON m)

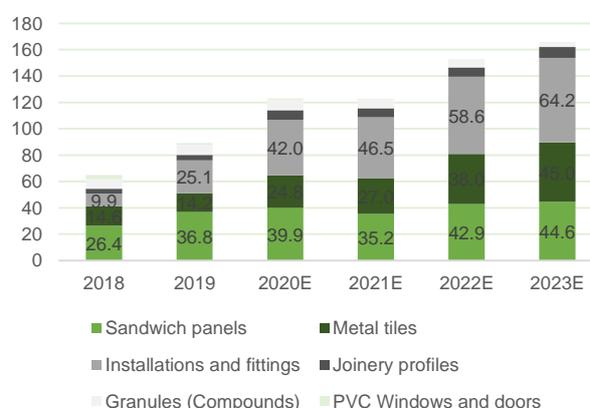


Source: Company data, WOOD Research

EBITDA. We assume that transport costs grow in line with sales, with a neutral impact on margins; and some slight margin improvements due to economies of scale on utilities, third parties and other costs. This drives our EBITDA expectation of RON 123m in 2020E, a 37.9% yoy increase, at a margin of 11%, a 180bps improvement vs. the previous year. In 1Q20, the company was already seeing margins improvements, reporting an 80bps increase in its EBITDA margin, to 8.3%, compared to 1Q19, while its latest guidance (end-June) indicated a 10% margin for 1H20. We do, however, forecast a small drop in the EBITDA in 2021E, to RON 122.5m and a margin of 10.1%, once the gain from lower raw materials costs fades, and we estimate a slowdown in growth. In terms of business lines, the company's three main segments accounted for 85% of its EBITDA in 2019, and we expect this share to improve, given their faster growth. We see an improvement in the metal tiles unit, to 9.5% in 2023E, from 5.3% in 2019, trending closer towards the market leader, Bilka, at 10.9%, driven by supply chain efficiency gains and production efficiency at its new plant. We also anticipate an improvement in profitability at its joinery profiles unit, which has reported operating losses, albeit small ones, in the past two years. This drives our medium-term expectations for the EBITDA margin trending at 10.4-10.7%. Over 2019-23E, we expect EBITDA growth of 17% per annum.

EBITDA dynamics (RON m)

EBITDA by segment (RON m)

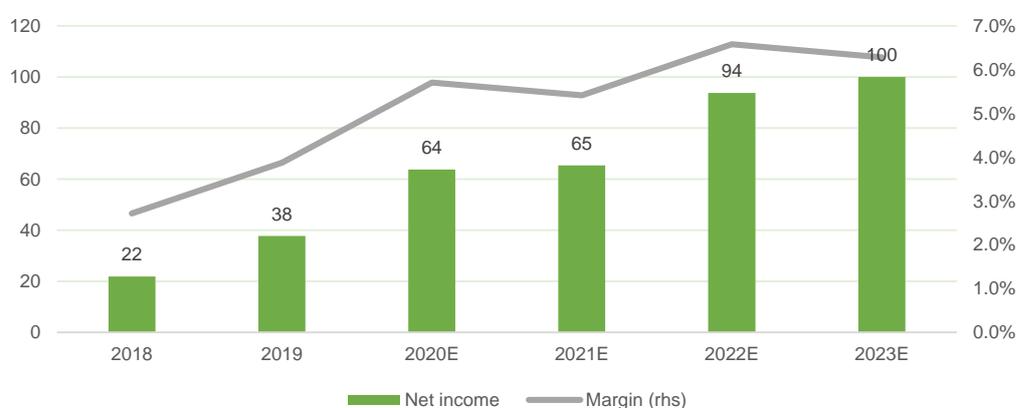


Source: Company data, WOOD Research

Net income. Below the EBITDA level, we expect positive effects from the lower depreciation relative to revenues, as the company's heavy capex plan in the past few years starts to contribute to growth, while capex is declining in the next two years. We assume an average asset life of 7.1-7.4 years over our forecast period, compared to 7.6 in 2019. We also expect a positive impact from lower finance costs, as

the company reduces its net debt balance. On the other hand, we expect an increase in the effective tax rate. This has been c.13% for the past three years and, in our model, we assume a gradual increase to 16% by 2024E, the current corporate tax rate in Romania. This drives our net income forecasts of RON 64m in 2020E (a 69% increase), RON 65m in 2021E, RON 94m in 2022E and RON 100m in 2023E, at an annual growth rate of 28% over 2019-23E.

Net income dynamics (RON m)

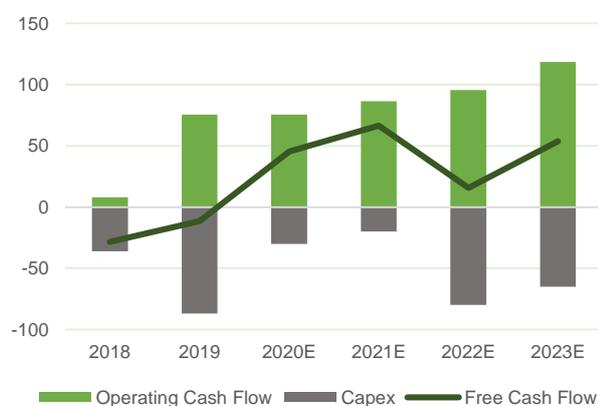


Source: Company data, WOOD Research

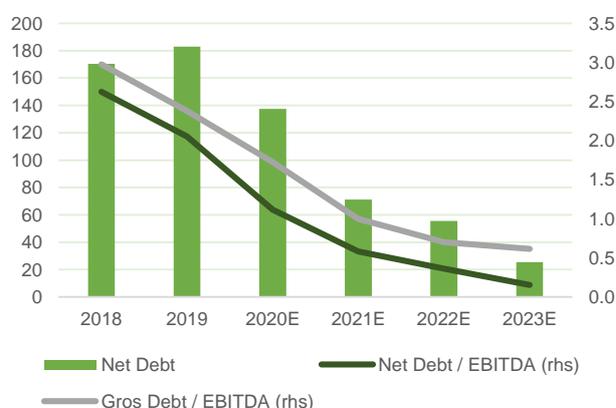
Free cash flow and leverage. After three years of an intensive capex programme, totalling RON 230m over 2017-19 and resulting in negative free cash flow, we expect the company to turn cash positive. We forecast free cash flow of RON 45m for 2020E, driven mainly by a decline in capex to RON 30m, in a bid to conserve cash in the uncertain context of the pandemic. We expect the capex to start increasing from 2022E-onwards, and forecast RON 65-80m per annum in the medium term, given that the company's business model requires the continuous development of capacity to sustain growth. In the medium- to long-term, we expect a capex/sales ratio of c.5%. We also highlight that TeraPlast has been successful in accessing EU funds and state aid for its investments in the past; and, in the context of grants offered for investments to stimulate the economy, this could have a positive effect on capex if accessed again.

We take a neutral view on the working capital, as we believe that any gains from extending payable days are likely to be mitigated by potential delays on the receivables side throughout the COVID-19 crisis. We forecast a working capital to sales ratio of 16-17% across our horizon, in line with the 2019 level of 16%. As a result, we expect continuous deleveraging for TeraPlast, from a net debt/EBITDA ratio of 2.6x in 2018 and 2.1x in 2019, to 1.1x in 2020E and 0.6x in 2021E. We believe that, at these levels, the company is in a comfortable position to pursue acquisitions and investments for growth. While not a dividend payer historically, if there is a lack of opportunities, which we do not see as likely, the company could become an attractive dividend payer, in our view. A payout of 25% in 2022E would imply a dividend yield of 6% at current prices, on our estimates.

Free cash flow (RON m)



Leverage (RON m)



Source: Company data, WOOD Research

Risks

Macro risk. As a construction materials manufacturer, TeraPlast is heavily exposed to the construction sector, which is highly cyclical. We expect the COVID-19 pandemic to cause a sharp GDP contraction of 5.9% in 2020E, followed by a rebound of 5.2% in 2021E. In our numbers, we expect a slowdown in construction, with a lag, mainly in 2021E. We anticipate TeraPlast's business to show resilience in this period, as its exposure is to segments of the construction market that are more defensive in the current context. There is downside risk for our estimates, however, if the macro hit is larger than we expect currently, or the slowdown in the construction steeper and more widespread, and we view this as the biggest risk for our forecasts, in the near term.

Prices of raw materials. TeraPlast's single largest cost item is raw materials, ranging at 71-74% of sales in the past three years. Its supply chain strategy plays a key role in maintaining and improving margins. While we believe that TeraPlast is well-positioned, given its diversified business model and experience in the market, it could be wrong-footed by volatility in the prices of raw materials, particularly in the current context, where supply and demand are rebalancing. We take a conservative view, and expect largely similar gross margins in the medium term.

Dependency on state infrastructure spending. A significant part of the company's revenues (a large part of its installations and fittings business line, which generated about one-quarter of its 2019 revenues) is derived from pipes for water, gas and sewage infrastructure, projects that are developed by the state. While we believe that such projects should gain increasing political backing in the future, a change in the government's strategy could affect the company's performance.

Sustainability of PVC. There have been active debates at the EU level since 2000 on PVC's impact on the environment, when the European Commission published its Green Paper on Environmental Issues on PVC. Debates continue to this day on the impact and the measures to be taken, while we note that, in 2000, most of the PVC waste was being stored in waste landfills. Recycling has become more of a common trend in the industry, and debates will intensify in the medium- to long-term in light of the green initiatives undertaken by the EU. We note, however, that we believe that TeraPlast is one of the leaders in recycling in the industry, with its 12kt capacity rigid PVC recycling plant being the largest in Romania, and one of the top-10 in Europe.

Leverage. At the end of 2019, the company had a net debt/EBITDA ratio of 2.1x and a gross debt/EBITDA ratio of 2.4x, while its covenants are assessed on the latter, with a 3.5x limit. While we believe the company has sufficient headroom to weather a severe change in the business environment, we view it as on the more indebted side in the Romanian listed companies universe.

Low market liquidity. Its average traded volumes over the past 12 months have been as low as EUR 70k/day, which creates the risk of higher price fluctuations.

Financials

Income statement

RON m	2018	2019	2020E	2021E	2022E	2023E
Revenues	805	973	1,118	1,206	1,424	1,591
Steel segment	484	580	659	686	825	921
Heat insulated joinery / Sandwich panels	263	310	335	352	408	449
Metal tiles	221	270	324	334	418	472
Plastics segment	322	394	459	521	599	670
Installations and fittings	174	240	300	360	432	497
Joinery profiles	56	61	64	65	69	72
Granules (Compounds)	63	64	65	66	68	70
PVC Windows and doors	29	29	29	29	30	31
Other revenues	2	2	0	0	0	0
Total revenues	806	975	1,118	1,206	1,424	1,591
Raw materials	-605	-698	-790	-860	-1,025	-1,148
Gross profit	201	277	328	347	399	442
Employee benefit expenses	-68	-86	-96	-106	-114	-132
Depreciation	-31	-33	-38	-37	-36	-42
Other expenses	-67	-103	-109	-118	-132	-145
Transport costs	-29	-40	-46	-50	-59	-65
Utilities	-9	-13	-16	-17	-18	-20
3rd party	-14	-18	-21	-23	-24	-26
Marketing	-5	-6	-7	-8	-9	-11
Other	-9	-25	-19	-20	-21	-23
Operating costs	-166	-222	-243	-261	-283	-318
EBITDA	64.9	88	123	122	153	166
Operating result	35	55	85	85	116	124
Financial result	-9	-10	-9	-7	-3	-3
Share of the result of JVs	0	0	0	0	0	0
Profit before tax	26	45	76	78	113	121
Income tax expense	-4	-6	-10	-11	-16	-18
Non-controlling interests	1	1	2	2	3	3
Profit for equity holders	22	38	64	65	94	100
Dividends	1	0	0	0	23	25

Source: Company data, WOOD Research

Operational data

RON m	2018	2019	2020E	2021E	2022E	2023E
EBITDA breakdown						
Steel segment	41.0	51	65	62	81	90
Heat insulated joinery / Sandwich panels	26.4	37	40	35	43	45
Metal tiles	14.6	14	25	27	38	45
Plastics segment	23.9	38	58	60	72	76
Installations and fittings	9.9	25	42	47	59	64
Joinery profiles	3.5	4	7	7	7	8
Granules (Compounds)	7.3	8	8	7	6	4
PVC Windows and doors	3.2	1	1	0	0	0
Growth	89.3%	20.9%	14.7%	7.9%	18.1%	11.7%
Steel segment	179.7%	19.9%	13.6%	4.0%	20.4%	11.5%
Heat insulated joinery / Sandwich panels	51.8%	18.0%	8.0%	5.0%	16.0%	10.0%
Metal tiles	n.a.	22.1%	20.0%	3.0%	25.0%	13.0%
Plastics segment	27.4%	22.4%	16.3%	13.5%	15.0%	11.9%
Installations and fittings	44.2%	38.2%	25.0%	20.0%	20.0%	15.0%
Joinery profiles	1.8%	8.5%	5.0%	2.0%	5.0%	5.0%
Granules (Compounds)	16.6%	1.6%	2.0%	1.0%	3.0%	3.0%
PVC Windows and doors	25.9%	-0.1%	0.0%	0.0%	3.0%	3.0%
Gross profit margin	24.9%	28.4%	29.3%	28.7%	28.0%	27.8%
Operating margin	4.3%	5.6%	7.6%	7.1%	8.2%	7.8%
EBITDA margin	8.0%	9.2%	11.0%	10.1%	10.7%	10.4%
Net income margin	2.7%	3.9%	5.7%	5.4%	6.6%	6.3%

Source: Company data, WOOD Research

Balance sheet

RON m	2018	2019	2020E	2021E	2022E	2023E
PPE	214	281	273	255	299	322
Intangible assets	71	44	44	44	44	44
Other Fixed assets	9	17	17	17	17	17
Non-current assets	294	342	334	316	360	383
Inventories	194	182	195	224	281	315
Receivables	127	139	184	192	215	240
Cash	23	29	75	51	52	77
Other current assets	1	2	2	2	2	2
Current assets	346	352	455	469	549	633
TOTAL ASSETS	642	693	789	785	909	1,016
Share capital	107	134	134	134	134	134
Retained earnings	69	79	143	208	302	379
Other equity	61	61	61	61	61	61
Non-controlling interests	2	2	4	6	9	12
Total equity	238	276	342	409	506	585
LT Loans	71	63	63	23	18	18
Lease liabilities	1	6	6	6	6	6
Other LT liabilities	62	27	27	27	27	27
Total non-current liabilities	134	96	96	56	51	51
ST Loans	122	149	149	99	89	84
Payables	145	166	195	212	253	283
Lease liabilities	1	3	3	3	3	3
Provisions	1	1	2	4	6	8
Other ST liabilities	1	2	2	2	2	2
Total current liabilities	270	321	351	320	352	380
Total liabilities	404	417	447	376	403	431
TOTAL EQUITY AND LIABILITIES	642	693	789	785	909	1,016

Source: Company data, WOOD Research

Cash flow statement

RON m	2018	2019	2020E	2021E	2022E	2023E
Pre-tax Income	26	45	76	78	113	121
Tax	-4	-6	-10	-11	-16	-18
Depreciation & amortisation	31	33	38	37	36	42
Changes in working capital	-73	23	-30	-20	-39	-28
Other adjustments	27	-19	1	1	2	2
Operating cash flow	8	76	75	86	96	119
CAPEX	-59	-99	-30	-20	-80	-65
Other	23	12	0	0	0	0
Investing cash flow	-36	-87	-30	-20	-80	-65
Dividends	-11	-1	0	0	0	-23
Change in loans	59	19	0	-90	-15	-5
Other	-9	0	0	0	0	0
Financing cash flow	39	18	0	-90	-15	-28
Free cash flow	-28	-11	45	66	16	54
Beginning cash	12	23	29	75	51	52
- other adjustments	0	0	0	0	0	0
- change in cash flow	11	7	45	-24	1	25
Ending cash	23	29	75	51	52	77

Source: Company data, WOOD Research

Ratios

	2018	2019	2020E	2021E	2022E	2023E
Number of shares (m, eop)	1,070.2	1,337.8	1,337.8	1,337.8	1,337.8	1,337.8
Number of shares (m, waop)	863.9	1,120.8	1,337.8	1,337.8	1,337.8	1,337.8
Price	0.3	0.3	0.3	0.3	0.3	0.3
Net debt	170	183	138	71	56	25
Net debt / EBITDA (x)	2.6	2.1	1.1	0.6	0.4	0.2
EPS (RON)	0.03	0.03	0.05	0.05	0.07	0.07
- EPS growth	-2.8%	33.1%	41.5%	2.5%	43.5%	6.6%
Dividend (RON m)	0.8	0.0	0.0	0.0	23.4	50.0
DPS (RON)	0.00	0.00	0.00	0.00	0.02	0.02
- Payout Ratio	4%	0%	0%	0%	25%	25%
Dividend yield	0.3%	0.0%	0.0%	0.0%	5.7%	6.1%
FCF yield	-9%	-3%	11%	16%	4%	13%
BVPS (RON)	0.3	0.2	0.3	0.3	0.4	0.4
ROA	4.0%	5.7%	8.6%	8.3%	11.1%	10.4%
ROE	9.5%	14.7%	20.6%	17.4%	20.5%	18.3%
ROIC	6.3%	8.9%	12.7%	12.4%	14.4%	13.9%
PE (x)	15.0	10.9	6.4	6.3	4.4	4.1
EV/EBITDA (x)	7.7	6.7	4.5	4.0	3.1	2.7
P/BV	1.1	1.2	1.2	1.0	0.8	0.7

Source: Company data, WOOD Research

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