

TeraPlast

Buy

Maintained

Price: RON 0.378
Price target: RON 0.462
(from RON 0.336)

Leaner, stronger, and with a large cash pile

Since our [initiation](#) on TeraPlast, its share price has increased by 56.4%, and the company has announced the sale of its steel business, which accounted for nearly half of its EBITDA in 2019. We have increased our forecasts and maintain our BUY rating on TeraPlast, with a higher price target (PT) of RON 0.462/share, implying 22.2% upside. Following the successful closing of the sale of its steel business, which we estimate to happen in 4Q20E, we expect TeraPlast to be in a net cash position, strengthening its balance sheet, following a period of leverage being around 2.1-2.9x in the past few years. At the end of 2020E, we expect a net cash position of RON 227m, equivalent to 34% of its current market cap, which would leave room for high dividend payouts, as well as investments and acquisitions. We believe the focus on plastics from 2021E-onwards is positive, given the company's exposure to infrastructure projects, which should continue growing at a fast pace in Romania, despite the uncertainty in the overall construction market. Currently, TeraPlast is trading close to its three-year average multiples, at a LTM P/E of 12.5x and an EV/EBITDA of 8.1x, while the discounts vs. its peers have narrowed somewhat, to 7.5% on our 2021E P/E of 16.3x. However, we believe there are reasons to justify a further rerating.

Steel business disposal. We expect net proceeds of RON 364m from the transaction, implying a 2020E EV/EBITDA of 6.9x for its steel business, based on the agreed price. At the end of 2020E, we expect a net cash position of RON 227m, including the proceeds from the transaction, equivalent to 34% of its current market cap, and a -1.8x net debt/EBITDA ratio. After assuming 80-90% dividend payouts over 2020-24E, and including the recently announced capex of EUR 10m, as well as further growth and maintenance capex, its net cash position deteriorates only slightly over the period. Therefore, we believe there is room for positive surprises ahead, from either special dividends distribution, or acquisitions, with the latter having been a successful recipe for the group in the past, particularly Wetterbest, its metal roofing business, part of the steel assets that are due to be disposed of.

2020E update. Following the strong set of results in 2Q20, we have increased our 2020E expectations slightly. We expect revenues of RON 1,130m for this year, 1.1% higher than our previous forecast, and EBITDA of RON 128.6m, 4.6% higher than our previous expectation and 44.2% higher yoy, at a margin of 11.4%. We also pencil in a one-off gain of RON 206m at the consolidated level, due to the sale of its steel business.

The future. Following the disposal of its steel business, we view the focus on plastics, where a large part of its current business is exposed to infrastructure projects in Romania, as positive, particularly as the sector is showing signs of strong growth, in a period marked by uncertainty in the overall construction sector. We expect revenues growth for its plastics division at 18.3% over 2019-22E; and we pencil in a boost in the EBITDA margin from 9.2% to 13.7% in 2021E, due to the steel business being lower margin; while we expect margin gains in its plastics business, due to lower raw materials prices in the market.

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

Expected events

3Q20 results	26 October
3Q20 results call	27 October
Dividend vote	27 November

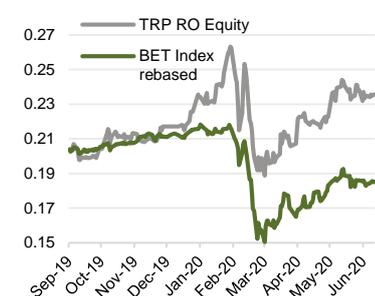
Key data

Market Cap	EUR 135.6m
Free float	53.2%
3M ADTV	USD 156k
Shares outstanding	1,743.2m
Major Shareholder	Mr. Dorel Goia (46.8%)
Bloomberg Code	TRP RO
BUX Index	8,891.59

Price performance

52-w range	0.189-0.390
52-w performance	85.5%
Relative performance	92.3%

TeraPlast 12M share price performance



Year	Sales (RON m)	EBITDA (RON m)	Net Profit (RON m)	Adj. EPS (RON)	Adj. EPS growth	Adj. P/E (x)	EV/EBITDA (x)	ROE (%)	DPS (RON)	Dividend yield
2018	806	65	22	0.025	-2.8%	18.5	8.9	9.5%	0.001	0.3%
2019	975	88	38	0.034	33.1%	13.4	7.7	14.7%	0.041	10.9%
2020E	1,130	129	274	0.039	16.6%	9.6	3.4	17.5%	0.031	8.3%
2021E	551	75	40	0.023	-41.0%	16.3	5.9	8.1%	0.021	5.5%
2022E	653	85	59	0.034	45.7%	11.2	5.2	11.7%	0.030	8.0%

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Closing Prices as of 21 September 2020

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Company snapshot – BUY, PT RON 0.462

TeraPlast

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. Its 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. 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)	0.378			
Price target (RON)	0.462			
Upside to PT	22.2%			
Shares outstanding (m)	1,743.2			
MCAP (RON m)	659			
Free float	53.2%			
ADTV (USDk)	156			
52 Week Range (RON)	0.189 - 0.390			

RATIOS

PER SHARE RATIOS						VALUATION RATIOS					
	2018	2019	2020E	2021E	2022E		2018	2019	2020E	2021E	2022E
Adj. EPS	0.025	0.034	0.039	0.023	0.034	Adj. P/E	18.5	13.4	9.6	16.3	11.2
BVPS	0.276	0.246	0.291	0.282	0.295	P/FCF	-14.3	-44.0	-86.7	16.4	14.4
DPS	0.001	0.041	0.031	0.021	0.030	P/BV	1.4	1.5	1.3	1.3	1.3
FINANCIAL RATIOS						EV/EBITDA	8.9	7.7	3.4	5.9	5.2
Capex/depreciation	192%	303%	71%	205%	95%	EV/Sales	0.7	0.7	0.4	0.8	0.7
Capex/net fixed asstes	20%	29%	8%	20%	12%	EV/EBIT	16.6	12.6	4.8	8.0	7.5
Op. cash flow/capex	3.31	0.17	0.13	0.76	0.72	Cash flow from ops, RON m	8	76	19	80	71
EBITDA margin	8.0%	9.2%	11.4%	13.7%	13.0%	EV, RON m	577	691	432	447	437
EBIT margin	4.3%	5.6%	8.0%	10.1%	8.9%	FCF, RON m	-28	-11	-8	40	46
Net margin	2.7%	3.9%	6.1%	7.3%	9.0%	FCF yield	-7.0%	-2.3%	-1.2%	6.1%	6.9%
Adj. ROE	9.5%	14.7%	17.5%	8.1%	11.7%	Dividend yield	0.3%	10.9%	8.3%	5.5%	8.0%
Adj. ROA	4.0%	5.7%	9.6%	5.6%	8.0%	Dividend payout	4%	122%	20%	90%	90%
ROIC	6.3%	8.9%	14.4%	14.1%	12.9%	Net debt / EBITDA	2.6	2.1	-1.8	-2.8	-2.6
Net debt/(cash) to equity+minorities	71.5%	66.2%	-44.9%	-43.2%	-43.1%						
Net debt/adj. EBITDA	2.6	2.1	-1.8	-2.8	-2.6						
WC/Sales	22%	16%	16%	17%	17%						

COMPANY FINANCIALS

INCOME STATEMENT (RONm)						BALANCE SHEET (RONm)					
	2018	2019	2020E	2021E	2022E		2018	2019	2020E	2021E	2022E
Revenues	806	975	1,130	551	653	Fixed Assets	294	342	185	205	204
Steel segment	484	580	659	0	0	Inventories	194	182	107	93	116
Plastics segment	322	394	471	551	653	Trade and other receivables	127	139	102	88	98
Other revenues	2	2	0	0	0	Cash and bank balances	23	29	340	325	334
Raw materials	-596	-701	-787	-358	-432	Current Assets	346	352	549	506	549
Gross profit	211	274	343	193	221	Total Assets	642	693	734	711	753
Employee benefit expenses	-68	-86	-101	-63	-75	Equity	238	276	507	492	515
Depreciation	-31	-33	-38	-20	-26	LT Loans	71	62.93	28	28	28
Other expenses	-77	-100	-113	-55	-62	LT Liabilities	134	96	43	43	43
EBITDA	65	88	129	75	85	Trade and other payables	145	166	97	88	106
Operating result	35	55	91	56	58	ST Loans	122	149	84	84	84
Financial result	-9	-10	-9	-9	11	ST Liabilities	270	321	185	176	195
Terasteel sale gain	0	0	206	0	0	Total Equity and Liabilities	642	693	734	711	753
Profit before tax	26	45	287	47	69	Net debt	170	183	-227	-212	-222
Profit for equity holders	22	38	274	40	59	Net working capital	-73	23	-32	19	-15
Adjusted net income	22	38	69	40	59						
EBITDA breakdown						CASH FLOW STATEMENT (RONm)					
	2018	2019	2020E	2021E	2022E		2018	2019	2020E	2021E	2022E
EBITDA	64.9	89.2	128.6	75.3	84.6	Net profit	26	45	82	47	69
Steel segment	41.0	51.0	59.3	0.0	0.0	Depreciation	31	33	38	20	26
Heat insulated joinery / Sandwich panels	26.4	36.8	33.9	0.0	0.0	Working capital change and others	-73	23	-32	19	-15
Metal tiles	14.6	14.2	25.5	0.0	0.0	Other adjustments	24	-25	-68	-6	-9
Plastics segment	23.9	38.2	69.2	75.3	84.6	Operating Cash Flow	8	76	19	80	71
Installations and fittings	9.9	25.1	49.6	58.5	67.9	Investment Cash Flow	-36	-87	337	-40	-25
Joinery profiles	3.5	4.1	4.6	3.5	3.2	Free Cash Flow	-28	-11	356	40	46
Granules (Compounds)	7.3	7.6	11.6	9.5	9.0	Dividends paid	-11	-1	-46	-55	-36
PVC Windows and doors	3.2	1.4	3.4	3.8	4.4	Increase in debt	59	19	0	0	0
EBITDA Margins	8.0%	9.2%	11.4%	13.7%	13.0%	Financing Cash Flow	39	18	-46	-55	-36
Steel segment	8.5%	8.8%	9.0%			Change in Cash balance	11	7	310	-15	9
Plastics segment	7.4%	9.7%	14.7%	13.7%	13.0%						

CHARTS



Investment case

Since our **initiation** on TeraPlast, its share price has increased by 56.4%, and the company has announced the sale of its steel business, which accounted for nearly half of its EBITDA in 2019. We have increased our forecasts and maintain our BUY rating on TeraPlast, with a higher price target (PT) of RON 0.462/share, implying 22.2% upside. Following the successful closing of the sale of its steel business, which we expect to happen in 4Q20E, we expect TeraPlast to be in a net cash position, strengthening its balance sheet, following a period of leverage at around 2.1-2.9x in the past few years. We expect net proceeds of RON 364m from the transaction and, based on our latest estimates, this implies a 2020E EV/EBITDA of 6.9x for the steel business on the agreed price. At the end of 2020E, we expect a net cash position of RON 227m, equivalent to 34% of its current market cap, which would leave room for high dividend payouts, as well as investments and acquisitions. Based on the company's announcement of RON 44-48m in dividends, to be paid in December 2020E, and our assumption of 80-90% payouts in the next few years, TeraPlast's dividend yields should average at 8.2% over 2019-22E, while still being in a net cash position, implying upside risk for our dividend assumptions.

Going forward, we believe the focus on plastics from 2021E-onwards is positive, given that the division's main exposure is to infrastructure projects, which should continue growing at a fast pace in Romania, despite the uncertainty in the overall construction market. We expect revenues growth for its plastics division at 18.3% per annum (-12.4% for the group, given the disposal) over 2019-22E; and we pencil in a boost in its EBITDA margin from 9.2% to 13.7% in 2021E, due to the steel business being lower margin; while we expect margin gains in its plastics business, due to lower raw materials prices in the market. Currently, TeraPlast is trading close to its three-year average multiples, at a LTM P/E of 12.5x and an EV/EBITDA of 8.1x, while the discounts vs. its peers have narrowed somewhat, to 7.5% on our 2021E P/E of 16.3x. However, we believe there are reasons to justify a further rerating, given our expectations of strength in its results ahead, combined with an expected net cash position of 34% of its market cap, and higher revenues growth and dividend potential compared to its peers.

Steel business disposal to lead to a large cash pile. Our expectation is that the transaction will be finalised in November/December 2020, with competition council approvals being the next main step. We expect net proceeds of RON 364m from the transaction, based on the headline price of RON 410m, and adjusted for our net debt expectation for the steel business at closing. On our latest estimates, this implies a 2020E EV/EBITDA of 6.9x for its steel business based on the agreed price. We expect TeraPlast to be in a net cash position, following a period of leverage around 2.1-2.9x in the past few years. At the end of 2020E, we expect a net cash position of RON 227m, including the proceeds from the transaction, equivalent to 34% of its current market cap, and a -1.8x net debt/EBITDA ratio. We believe this should leave room for TeraPlast to start distributing more cash to its shareholders, while also investing and pursuing acquisitions. We assume 80-90% dividend payouts over 2020-24E, and include the capex of EUR 10m announced by the company recently; however, given the plastics division's free cash flow generation, its net cash remains largely unchanged over the period, declining only slightly, to RON 175.3m in 2024E. Given its history of relatively high leverage in the past few years, in order to reach a 2x net debt/EBITDA ratio by 2024E, the company has the capacity to spend an additional RON 385m on distributions or investments, on top of our dividends and capex assumptions, described above. Therefore, we believe there is room for positive surprises ahead, from either a special dividends distribution, or acquisitions.

2020E looking more positive. Following its strong set of results in 2Q20, we have increased our 2020E expectations slightly. We expect revenues of RON 1,130m for the year, 1.1% higher than our previous forecast and 16.2% higher yoy, driven by a stronger performance in its plastics division. We also expect a boost in margins, due to lower raw materials prices in its plastics division, while we have reduced our expectations for its steel business for this year. Overall, we expect EBITDA of RON 128.6m for the group, 4.6% higher than our previous expectations and 44.2% higher yoy, at a margin of 11.4%. We also pencil in a one-off gain of RON 206m at the consolidated level, due to the sale of its steel business, as a result of the difference between the net proceeds and the division's book value, resulting in an increase in its distributable reserves.

Indicating a stronger outlook going forward. Following the disposal of its steel business, we expect the shape of TeraPlast to be different in the future. We view the focus on plastics from 2021E-onwards, where a large part of its current business is exposed to infrastructure projects in Romania, as positive, particularly as the sector is showing signs of strong growth, in a period marked by uncertainty in the overall construction sector. We expect revenues growth for its plastics division at 18.3% per annum (-12.4% for the group, given the disposal) over 2019-22E; and we pencil in a boost in its EBITDA margin from 9.2% to 13.7% in 2021E, due to the steel business being lower margin; while expecting margin gains in its plastics business, due to lower raw materials prices in the market. The group's deleveraging

will make room for new investments, and the company announced EUR 20m of investments in its plastics division recently, out of which EUR 10m will most likely be state aid. With free cash flow generation of RON 48m on average over 2021-23E, on our numbers, we believe there is further room to grow, either via accelerating investments, or acquisitions, with the latter having been a successful recipe for the group in the past, particularly Wetterbest, its metal roofing business, part of the assets due to be disposed of.

Still attractively valued, in our view, despite its recent performance. Following the rally of 56% since our initiation report in July 2020, and an 85.5% share price increase in the past 12 months, TeraPlast is trading currently at a trailing P/E of 12.5x, 6.5% below its three-year average. On trailing EV/EBITDA, it trades at 8.1x, 1% below its three-year average. We believe that the disposal of its steel business, which is likely to result in a higher-growth, higher-margin business, combined with a net cash position of c.34% of its current market cap, does justify a rerating of its multiples. Furthermore, we expect the group to continue showing strength in its 2H20E numbers, and we expect growth of 81% in its adjusted net income in 2020E and growth of 44% in EBITDA in 2020E, implying 2020E multiples of 9.6x P/E and 3.4x EV/EBITDA, on our numbers.

TeraPlast's P/E discount has narrowed somewhat on our 2021E numbers (which exclude its steel business), to 7.5% on our 2021E 16.3x multiple. On our 2021E EV/EBITDA of 5.9x, the discount remains high, at 33.4%, although its net cash position explains this partly. However, we believe there is upside left for TeraPlast, given its strong growth prospects ahead, assuming an 18% CAGR for its plastics business over 2019-21E, vs. the 0% median growth for its peer group, on the Bloomberg consensus. We have also included a comparison on dividends, and assume 80-90% payouts from 2020E-onwards, which makes the group stand out from its peers, with yields of 8.3% in 2020E and 5.5% in 2021E, on our estimates, vs. its peer group, at 1.8% in 2020E and 2.4% in 2021E, based on Bloomberg consensus estimates. At the same time, its high net cash position, following the closing of the steel business transaction, would leave upside room for our dividend estimates.

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 805m, resulting in a PT of RON 0.462/share, implying 22.2% upside. We rate TeraPlast a BUY.

Valuation summary

	Equity value (RON m)	Per share (RON)
DCF 12-month valuation	805	0.462
Current price		0.378
Upside		22.2%

Source: WOOD Research

DCF

We base our DCF valuation on the following assumptions:

- ✓ A WACC of 9.9% over our forecast period, taking into account an 81.8% equity/18.2% debt capital structure, based on our 2020E forecasts. Our WACC inputs are:
 - a) A risk free rate (RFR) of 5% and an equity risk premium (ERP) of 5%.
 - b) An unlevered beta of 1.0x and a levered beta of 1.2x.
 - c) A pre-tax cost of debt of 6% and a tax rate of 16%.
 - d) A net cash position of RON 227m at 2020E, following the sale of TeraSteel.
- ✓ A terminal growth rate of 2.0%.

DCF

RON m	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	91	56	58	71	77	79	82	84	81	82	84
Corporate Tax Rate [T]	13.5%	14.0%	14.5%	15.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
EBIT*(1-T)=NOPAT	78	48	50	60	65	66	69	70	68	69	70
Depreciation & amortisation	38	20	26	26	29	33	36	39	42	45	47
Cash from working capital	-32	19	-15	-17	-14	-12	-9	-7	-5	-5	-5
CAPEX [I]	-27	-40	-25	-45	-55	-55	-60	-60	-60	-60	-60
Unleveraged free cash flow [FCF]	58	47	36	25	25	32	35	42	46	49	52
Discount factor		0.91	0.83	0.75	0.69	0.62	0.57	0.52	0.47	0.43	0.39
Present Value of FCFs [PV:FCF]		43	30	18	17	20	20	22	22	21	20
Sum of [PV:FCF]		233									
Long term FCF growth rate		2.0%									
Residual value at horizon		679									
PV of residual value		265									
Net debt		-227									
Equity value		726									
12M Equity Value		805									
Number of shares		1,743.2									
12M price target		0.462									

Source: Company data, WOOD Research

WACC calculations

WACC	2021-30E
Unlevered Beta	1.0
Levered Beta	1.2
Risk free rate	5.00%
Market premium	5.00%
Cost of Equity	10.9%
Cost of debt pre tax	6.0%
Marg. tax rate	16.0%
Cost of debt after tax	5.0%
Weight k(e)	81.8%
Weight k(d)	18.2%
WACC %	9.9%

Source: WOOD Research

Peer multiples

TeraPlast's P/E discount has narrowed somewhat on our 2021E numbers (which exclude its steel business), to 7.5% on our 2021E 16.3x multiple. On our 2021E EV/EBITDA of 5.9x, the discount remains high, at 33.4%, although its net cash position explains this partly. However, we believe there is upside left for TeraPlast, given its strong growth prospects ahead, assuming an 18% CAGR for its plastics business over 2019-21E, vs. 0% median growth for its peer group, based on the Bloomberg consensus. We have also included a comparison on dividends, and assumed an 80-90% payout from 2020E onwards, which makes the group stand out from its peers, with yields of 8.3% in 2020E and 5.5% in 2021E, on our estimates, vs. its peer group, at 1.8% in 2020E and 2.4% in 2021E, on the consensus estimates. At the same time, its high net cash position, following the closing of the steel business transaction, would leave upside potential for our dividend estimates.

Peers comparison

Company		Mcap (EURm)	Adj. P/E*			EV/EBITDA			Div yield			EBITDA Revenues margin Growth**	
			2019	2020E	2021E	2019	2020E	2021E	2019	2020E	2021E	2020	2019-21E
KINGSPAN GROUP PLC	IR	13,248	34.8	37.6	34.7	23.0	24.8	22.9	0.6%	0.2%	0.6%	12%	2%
OWENS CORNING	US	6,099	14.4	17.3	13.6	7.8	8.6	7.7	1.3%	1.4%	1.4%	17%	0%
SIMPSON MANUFACTURING CO INCUS		3,397	31.4	26.1	24.3	17.6	15.5	14.7	1.0%	1.0%	1.0%	21%	4%
FLETCHER BUILDING LTD	NZ	1,749	8.7	79.6	19.3	6.6	10.4	7.5	6.7%	1.4%	2.9%	7%	-13%
JIANGSU CANLON BUILDING MA-A	CH	1,399	81.2	43.9	27.8	n.m.	32.8	21.6	n.m.	0.5%	0.7%	18%	n.m.
CSR LTD	AU	1,242	11.4	17.3	16.0	6.1	7.7	7.3	6.2%	4.7%	2.8%	13%	-12%
CANGZHOU MINGZHU PLASTIC -A	CH	871	32.7	25.8	23.4	14.9	12.4	11.3	1.4%	1.8%	2.0%	19%	8%
SEKISUI JUSHI CORP	JN	864	15.0	n.m.	n.m.	n.m.	n.m.	n.m.	1.9%	2.1%	n.m.	n.m.	n.m.
GRINDWELL NORTON LTD	IN	682	34.4	31.5	34.9	18.9	19.8	22.0	1.1%	n.m.	1.2%	17%	-5%
TRAKYA CAM SANAYII AS	TU	604	7.0	7.0	3.9	6.5	8.5	4.8	3.0%	3.7%	4.4%	13%	16%
ANADOLU CAM SANAYII AS	TU	476	8.1	9.5	8.2	6.7	5.5	4.9	2.5%	2.6%	3.7%	24%	19%
VIGLACERA CORP JSC	VN	387	16.3	16.4	15.0	6.6	7.0	8.0	4.4%	4.3%	4.3%	16%	0%
RAS AL KHAIMAH CERAMICS	UA	316	8.1	45.7	15.2	8.5	12.1	9.8	9.5%	n.m.	6.6%	11%	-6%
Median			15.0	26.0	17.6	7.8	11.2	8.9	2.2%	1.8%	2.4%	17%	0%
TeraPlast	RO	136	13.4	9.6	16.3	7.7	3.4	5.9	10.9%	8.3%	5.5%	11%	18%
discount/premium to all peers			-10.8%	-63.0%	-7.5%	-1.3%	-70.1%	-33.4%	392.4%	354.4%	126.9%	-5.1%	18.6%

Source: Bloomberg (21 September 2020 closing prices), WOOD Research; *TeraPlast 2020E earnings adjusted for the one-off gain due to the sale of its steel business; **growth for the plastics business used for TeraPlast

Changes in our estimates

Estimates update

RON m	2020E			2021E			2022E		
	New	Old	% change	New	Old	% change	New	Old	% change
Revenues	1,130.0	1,118.0	1.1%	551.0	1,206.5	-54.3%	653.1	1,424.4	-54.2%
Steel segment	659.2	659.2	0.0%	n.m.	685.7	n.m.	n.m.	825.5	n.m.
Plastics segment	470.8	458.8	2.6%	551.0	520.8	5.8%	653.1	599.0	9.0%
Raw materials	-787.1	-790.0	-0.4%	-357.6	-860.0	-58.4%	-431.7	-1025.4	-57.9%
Gross profit	342.9	328.0	4.5%	193.4	346.5	-44.2%	221.3	399.0	-44.5%
Employee benefit expenses	-101.1	-95.7	5.6%	-63.3	-106.3	-40.5%	-75.0	-114.0	-34.2%
<i>Depreciation</i>	-37.9	-37.9	0.0%	-19.5	-37.4	-47.8%	-26.4	-36.5	-27.6%
Other expenses	-113.2	-109.4	3.6%	-54.7	-117.7	-53.5%	-61.7	-132.1	-53.3%
Operating costs	-252.3	-243.0	3.8%	-137.6	-261.4	-47.4%	-163.2	-282.6	-42.3%
EBITDA	128.6	123.0	4.6%	75.3	122.5	-38.5%	84.6	152.9	-44.7%
Steel segment	59.3	64.7	-8.3%	n.m.	62.2	n.m.	n.m.	81.0	n.m.
Plastics segment	69.2	58.2	18.9%	75.3	60.3	24.9%	84.6	72.0	17.6%
Operating result	90.6	85.0	6.6%	55.8	85.1	-34.4%	58.2	116.4	-50.0%
Profit for equity holders	274.4	63.8	330.1%	40.4	65.4	-38.2%	58.9	93.8	-37.2%
Adjusted profit for equity holders	68.5	63.8	7.4%	40.4	65.4	-38.2%	58.9	93.8	-37.2%
EBITDA margin	11.4%	11.0%	0.38pp.	13.7%	10.1%	3.52pp.	13.0%	10.7%	2.22pp.
Steel segment	9.0%	9.8%	-0.82pp.	n.m.	9.1%	n.m.	n.m.	9.8%	n.m.
Plastics segment	14.7%	12.7%	2.01pp.	13.7%	11.6%	2.09pp.	13.0%	12.0%	0.94pp.
EBIT margin	8.0%	7.6%	0.42pp.	10.1%	7.1%	3.07pp.	8.9%	8.2%	0.73pp.
Adj. net income margin	6.1%	5.7%	0.36pp.	7.3%	5.4%	1.92pp.	9.0%	6.6%	2.43pp.

Source: 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 5.3% in 2020E, followed by a rebound of 4.7% 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, particularly as following the disposal of its steel division, infrastructure construction is the key sector the company will be exposed to. 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.

Steel business sale. The company announced, on 24 July 2020, that it had reached an agreement with Kingspan Group to sell its steel division, expecting the transaction to close by the end of the year. On 31 August 2020, shareholders voted in favour of the transaction. Based on our understanding, the next step will be approval from the competition councils where the group operates its steel division. We expect the transaction to close in November/December 2020E; and, while we do not expect delays or a negative outcome from the competition council, such events could have a negative impact on performance.

Low market liquidity. Its average traded volumes over the past 12 months have been as low as USD 100k/day, which creates the risk of higher price fluctuations.

Financials

Income statement

RON m	2018	2019	2020E	2021E	2022E	2023E
Revenues	805	973	1,130	551	653	753
Steel segment	484	580	659	0	0	0
Heat insulated joinery / Sandwich panels	263	310	335	0	0	0
Metal tiles	221	270	324	0	0	0
Plastics segment	322	394	471	551	653	753
Installations and fittings	174	240	308	384	473	558
Joinery profiles	56	61	58	59	62	65
Granules (Compounds)	63	64	71	72	79	87
PVC Windows and doors	29	29	35	35	39	43
Total revenues	806	975	1,130	551	653	753
Raw materials	-596	-701	-787	-358	-432	-501
Gross profit	211	274	343	193	221	252
Employee benefit expenses	-68	-86	-101	-63	-75	-86
Depreciation	-31	-33	-38	-20	-26	-26
Other expenses	-77	-100	-113	-55	-62	-69
Transport costs	-29	-40	-46	-23	-27	-31
Utilities	-9	-13	-16	-8	-8	-9
3rd party	-14	-18	-21	-10	-11	-11
Marketing	-5	-6	-7	-4	-4	-5
Other	-19	-22	-22	-11	-12	-13
Operating costs	-176	-219	-252	-138	-163	-181
EBITDA	64.9	89	129	75	85	97
Operating result	35	55	91	56	58	71
Financial result	-9	-10	-9	-9	11	11
TeraSteel sale gain	0	0	206	0	0	0
Share of the result of JVs	0	0	0	0	0	0
Profit before tax	26	45	287	47	69	82
Income tax expense	-4	-6	-11	-7	-10	-12
Non-controlling interests	1	1	2	0	0	0
Profit for equity holders	22	38	274	40	59	70
Adjusted profit for equity holders	22	38	69	40	59	70
Dividends	1	46	55	36	53	63

Source: Company data, WOOD Research

EBITDA breakdown, growth, and margins

RON m	2018	2019	2020E	2021E	2022E	2023E
EBITDA breakdown	65	89	129	75	85	97
Steel segment	41	51	59			
Plastics segment	24	38	69	75	85	97
Installations and fittings	10	25	50	58	68	79
Joinery profiles	3	4	5	4	3	4
Granules (Compounds)	7	8	12	10	9	9
PVC Windows and doors	3	1	3	4	4	5
Growth	89.3%	20.9%	15.9%	-51.2%	18.5%	15.3%
Steel segment	179.7%	19.9%	13.6%			
Plastics segment	27.4%	22.4%	19.4%	17.0%	18.5%	15.3%
Installations and fittings	44.2%	38.2%	28.0%	25.0%	23.0%	18.0%
Joinery profiles	1.8%	8.5%	-5.0%	2.0%	5.0%	5.0%
Granules (Compounds)	16.6%	1.6%	10.0%	2.0%	10.0%	10.0%
PVC Windows and doors	25.9%	-0.1%	20.0%	2.0%	10.0%	10.0%
Gross profit margin	26.1%	28.1%	30.3%	35.1%	33.9%	33.5%
Operating margin	4.3%	5.6%	8.0%	10.1%	8.9%	9.4%
EBITDA margin	8.0%	9.2%	11.4%	13.7%	13.0%	12.8%
Adj. Net income margin	2.7%	3.9%	6.1%	7.3%	9.0%	9.3%

Source: Company data, WOOD Research

Balance sheet

RON m	2018	2019	2020E	2021E	2022E	2023E
PPE	214	281	165	185	184	203
Intangible assets	71	44	8	8	8	8
Other Fixed assets	9	17	12	12	12	12
Non-current assets	294	342	185	205	204	223
Inventories	194	182	107	93	116	135
Receivables	127	139	102	88	98	113
Cash	23	29	340	325	334	316
Other current assets	1	2	1	1	1	1
Current assets	346	352	549	506	549	565
TOTAL ASSETS	642	693	734	711	753	788
Share capital	107	134	134	134	134	134
Retained earnings	69	79	312	297	320	337
Other equity	61	61	61	61	61	61
Non-controlling interests	2	2	0	0	0	0
Total equity	238	276	507	492	515	531
LT Loans	71	63	28	28	28	28
Lease liabilities	1	6	3	3	3	3
Other LT liabilities	62	27	12	12	12	12
Total non-current liabilities	134	96	43	43	43	43
ST Loans	122	149	84	84	84	84
Payables	145	166	97	88	106	124
Lease liabilities	1	3	1	1	1	1
Provisions	1	1	1	2	3	3
Other ST liabilities	1	2	1	1	1	1
Total current liabilities	270	321	185	176	195	213
Total liabilities	404	417	227	219	238	256
TOTAL EQUITY AND LIABILITIES	642	693	734	711	753	788

Source: Company data, WOOD Research

Cash flow

RON m	2018	2019	2020E	2021E	2022E	2023E
Pre-tax Income	26	45	82	47	69	82
Tax	-4	-6	-11	-7	-10	-12
Depreciation & amortization	31	33	38	20	26	26
Changes in working capital	-73	23	-32	19	-15	-17
Other adjustments	27	-19	-57	1	1	1
Operating cash flow	8	76	19	80	71	80
CAPEX	-59	-99	-27	-40	-25	-45
Other	23	12	0	0	0	0
TeraSteel sale	0	0	364	0	0	0
Investing cash flow	-36	-87	337	-40	-25	-45
Dividends	-11	-1	-46	-55	-36	-53
Change in loans	59	19	0	0	0	0
Other	-9	0	0	0	0	0
Financing cash flow	39	18	-46	-55	-36	-53
Free cash flow	-28	-11	-8	40	46	35
Beginning cash	12	23	29	340	325	334
- other adjustments	0	0	0	0	0	0
- change in cash flow	11	7	310	-15	9	-18
Ending cash	23	29	340	325	334	316

Source: Company data, WOOD Research

Ratios

	2018	2019	2020E	2021E	2022E	2023E
Number of shares (m, eop)	1,070.2	1,337.8	1,743.2	1,743.2	1,743.2	1,743.2
Price	0.378	0.378	0.378	0.378	0.378	0.378
Net debt	170	183	-227	-212	-222	-204
Net debt / EBITDA (x)	2.6	2.1	-1.8	-2.8	-2.6	-2.1
Adj. EPS (RON)	0.03	0.03	0.04	0.02	0.03	0.04
- EPS growth	-2.8%	33.1%	16.6%	-41.0%	45.7%	18.4%
Dividend (RON m)	0.8	46.0	54.9	36.4	53.0	62.8
DPS (RON)	0.00	0.04	0.03	0.02	0.03	0.04
- Payout Ratio	4%	122%	80%	90%	90%	90%
Dividend yield	0.3%	10.9%	8.3%	5.5%	8.0%	9.5%
FCF yield	-7%	-2%	-1%	6%	7%	5%
BVPS (RON)	0.3	0.2	0.3	0.3	0.3	0.3
Adj. ROA	4.0%	5.7%	9.6%	5.6%	8.0%	9.1%
Adj. ROE	9.5%	14.7%	17.5%	8.1%	11.7%	13.3%
ROIC	6.3%	8.9%	14.4%	14.1%	12.9%	14.1%
Adj. PE (x)	18.5	13.4	9.6	16.3	11.2	9.4
EV/EBITDA (x)	8.9	7.7	3.4	5.9	5.2	4.7
P/BV	1.4	1.5	1.3	1.3	1.3	1.2

Source: Company data, WOOD Research

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		18/08/2020	RON 0.336
		23/09/2020	RON 0.462

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