

SPONSORED RESEARCH

THRACE PLASTICS

Oversold fundamentals

A tough 2022... – 2022 was a challenging year for Thrace, as the top line rolled down, largely driven by low demand across Europe, and sales and profitability normalized due to the payback in demand for health care products (PPE), following the temporary COVID boost over 2020-22, while also hit by significant raw material inflation. This was evident in the FY results, with sales -8% yoy landing at €394m and EBITDA -54% yoy at €48m (including some €5-6m from PPE). PBT shaped at €32m, or €22m underlying (namely ex €4.6m one-off gains and €5.3m PPE profit). Despite the significant yoy drop, underlying profitability stood materially higher than 2019 levels.

... followed by moderate underlying profitability growth in 2023e... – In the light of the softer demand backdrop and relatively limited near term visibility (smaller/more frequent orders placed) as well as elevated costs and a rather tough pricing pass through, we have lowered our underlying 2023 EBITDA estimate, now eyeing €46.7m, indicating a healthy 9% yoy growth on an underlying basis (namely excluding the estimated contribution from PPE in 2022 EBITDA). We model a low c3% yoy volume growth, on further declining prices, thus expecting a c1% yoy drop in 2023 revenues to €389m. We reckon this is quite a conservative estimate with upside risk to the demand backdrop, but at this stage, we prefer to err on the conservative side.

... and low teens EBIT CAGR looking ahead – For 2024e we envisage sequential improvement, as the pendulum of operating leverage turns positive on abating input cost headwinds. As such we forecast EBITDA near €50m, pointing to another c7% yoy growth. Looking further out we believe that Thrace will navigate the challenging backdrop and emerge stronger leveraging on cost efficiencies and volume growth thanks to its strong market positioning, healthy balance sheet and growth investments. We calculate 2023-28e EBIT CAGR at 13%, with the respective margin rising >9% (a further c3pps boost), almost double the 5% in the pre-covid era.

Healthy balance sheet and lower capex envelope to drive rising cash returns – The strong cash pile-up during 2020-21, boosted by COVID-related demand, helped Thrace reduce leverage while also maintaining optionality regarding shareholder returns and investments. Following c€97m spent in 2020-22, we expect the capex envelope to trend down (€30m in 2023e and €20-25m in 2024-25e) in the coming years. In the meantime, Thrace remains strongly committed to sustainability, testament to which the ‘Platinum’ 1st ESG ranking for the group in Forbes Top 100 ESG transparency index. We believe it is reasonable to expect the group will continue driving shareholder value in the future in sync with growth in underlying profitability.

Valuation – We have recalibrated our model filtering through our updated estimates and a slightly higher WACC (9.3% from 9% previously) owing to the tighter monetary policy settings. We come up with a valuation range between €320m and €440m, with our baseline pointing to a 12m intrinsic value of €8.5/share, indicating notable upside, despite our conservative estimates. The current price reflects a rather pessimistic setup for the group, which has a proven solid track record of returns.

Estimates					
€ mn	2021 *	2022 *	2023e	2024e	2025e
Revenues	428.4	394.4	389.4	397.4	412.3
EBITDA	103.8	48.3	46.7	49.8	54.6
EBIT	83.9	27.4	24.2	27.1	31.7
Net profit	65.4	25.8	17.3	19.5	23.1
EPS	1.50	0.59	0.40	0.44	0.53
DPS	0.27	0.26	0.22	0.24	0.27

Valuation					
	2021 *	2022 *	2023e	2024e	2025e
P/E	4.1x	7.7x	10.6x	9.5x	8.0x
Adj. EV/EBITDA	2.4x	4.3x	4.4x	4.0x	3.5x
EBIT/Interest Expense	22.5x	6.2x	6.9x	7.9x	10.1x
Dividend Yield	4.5%	5.8%	5.3%	5.6%	6.3%
ROE	31.1%	10.1%	6.5%	7.1%	8.1%

Source: Eurobank Equities Research.

Market Cap (€ mn) €184.2
Closing Price (07/06) €4.21

Stock Data

Reuters RIC	THRr.AT
Bloomberg Code	PLAT GA
52 Week High (adj.)	€4.68
52 Week Low (adj.)	€3.34
Abs. performance (1m)	3.6%
Abs. performance (YTD)	6.3%
Number of shares	43.7mn
Avg Trading Volume (qrt)	€86k
Est. 3yr EPS CAGR *	-3.5%
Free Float	34%

Thrace Plastics Share Price



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See Appendix for Analyst Certification and important disclosures.

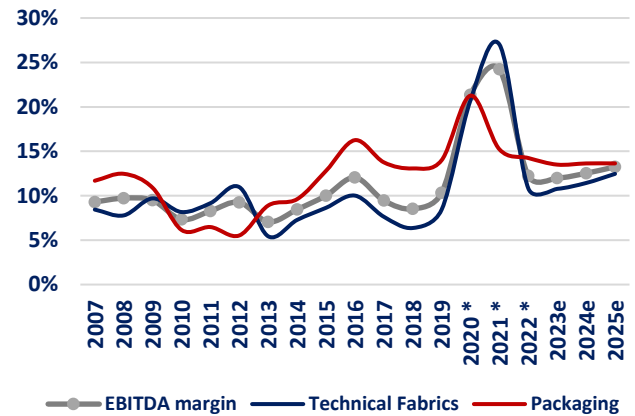
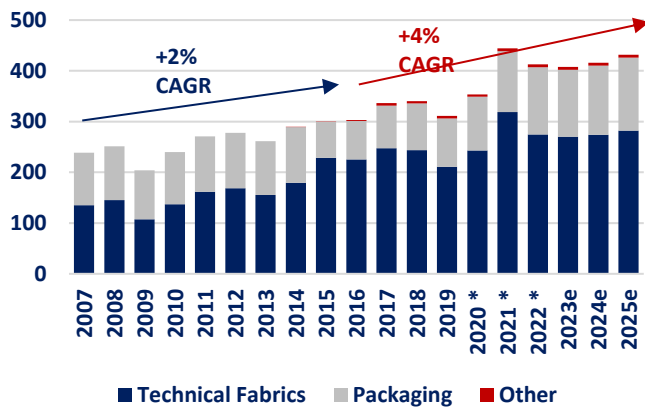
** 2020-22 numbers include significant temporary boost from PPE products*

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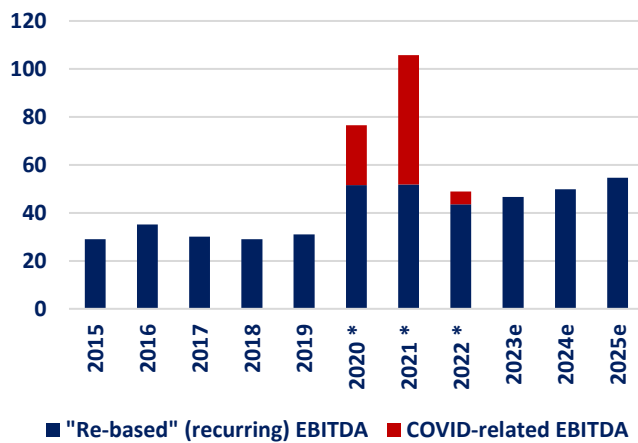
Updated thesis in 6 charts

Mid-single digits cont. sales growth in the mid-term looks feasible ... along with mid-teen EBITDA margins in our view

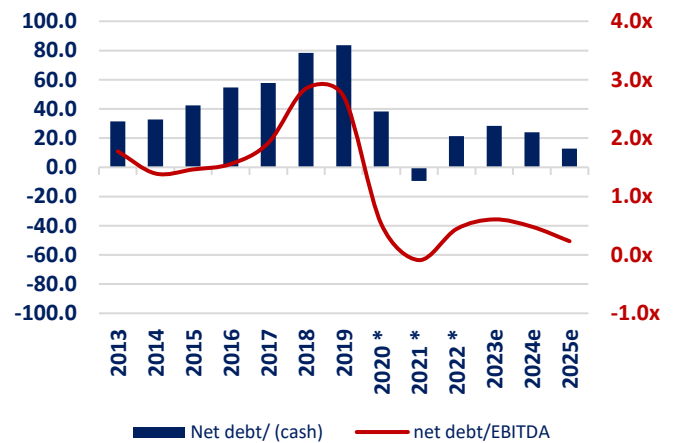


Source: Company, Eurobank Equities Research. Amounts in € mn
* 2020-22 numbers include temporary boost from PPE products

Extraordinary 2020-21 profitability, fading in 2022 ...

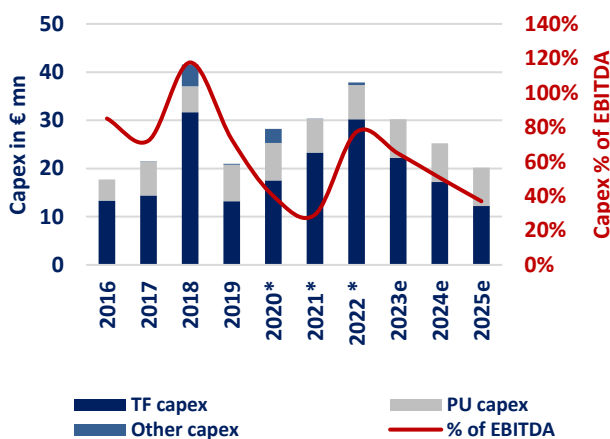


... filtered to reduced debt levels ...

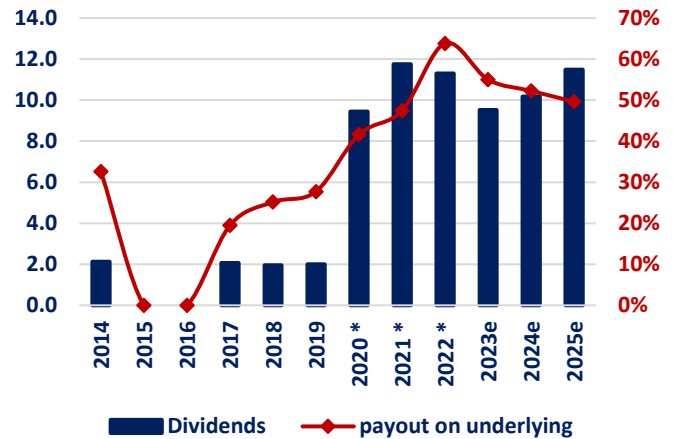


Source: Bloomberg, Company, Eurobank Equities Research
* 2020-22 numbers include significant temporary boost from PPE products

... further growth investments



... and shareholder returns (payout on underlying profit)



Source: Company, Eurobank Equities Research
* 2020-22 numbers include significant temporary boost from PPE products

Investment case revisited

Well-balanced business and strong product portfolio key to navigate the challenges

Thrace Plastics' diverse portfolio of products serves various sectors with both cyclical and secular growth drivers. Though medical equipment supported significantly 2020 and 2021 revenues (bolstered by demand for masks), the group's broad exposure to construction, agriculture, infrastructure, medical, furniture & bedding, rigid packaging and flexible packaging remains well-balanced, now that masks are not as significant. We see the group's product/sector/geographic diversification as key for Thrace to navigate the challenging backdrop, encumbered by recessionary concerns, geopolitical tensions, supply chain delays and cost inflation.

2022 PBT down 62% yoy, given the fading of PPE contribution and cost inflation; underlying profitability almost double 2019 levels though

2022 was a challenging year for Thrace Plastics, as the top line pulled back driven by very low demand across Europe and the drop of PPE in the mix and profitability factored in 1) normalization due to the payback in demand for health care products (PPE), following the temporary COVID boost and significant raw material/cost inflation. FY'22 sales dropped by 8% yoy (€394m), with volumes down 5.5% yoy and average pricing down 2.6% yoy, and EBITDA shed 54% yoy shaping at €48.3m. Results were indicative of the substantial decline in the Technical Fabrics, with 2022 revenues down 14% yoy and EBITDA down 66% yoy, while comparing to a high base as 2021 incorporated non-traditional PPE products. On the other hand, the packaging unit showed a resilient +3% rise in EBITDA. Group 2022 PBT stood at €32m, including €4.6m one-off gains and €5.3m profit from masks, thus implying underlying PBT of €22m. Net profit shaped at €25.8m. Despite the significant yoy drop, underlying profitability stood materially higher than 2019 levels.

2023e further weighed by slow demand trends, witnessed through Q1'23...

In the light of the softer demand backdrop, even vs pre-covid 2019 levels, and sustained cost challenges, we have recalibrated our model lowering our 2023 estimates by some 20% at EBITDA level. This comes as a result of an 11% sales downgrade stemming mainly from a volume lag coupled with softer pricing (lower inventory turnover and fixed costs absorption), within the elevated cost environment. Against this background, we forecast a slight decline in revenues (€389m, -1% yoy), with our EBITDA estimate standing at €46.7m, up by c9% yoy on an underlying basis. This lies above group EBITDA of c€30m in 2019, as a result of the transformation that has taken place and was masked by the temporary super profits of 2020-21 and intense investment plans. Testament of the above picture, Q1'23 trends are characterized by the slow recovery in demand trends, the high-cost base and the tough comparable, while for H1'23e mgt has indicated fairly similar underlying performance vs. last year, pointing to H1 EBITDA near c€25m, thus implying a gradually improving picture.

... though medium term outlook remains intact

In the near term, we see spillover effects from demand/cost challenges filtering to our 2024 and 2025 forecasts, despite the decelerating cost trends. We have thus turned to a conservative volume growth scenario, driven by the soft consumption indications and a tight economic outlook ahead. Nonetheless risk lies to the upside as cost deleveraging feeds in. We pencil in 2-4% revenue growth in 2024-25e, supported by mgt's focus on traditional sectors (further utilization of existing assets), better product mix and new investments, as well as tight cost monitoring, where applicable. This will translate to a high-single/low-double-digit bounce in underlying operating profits (following the c8% in 2023), with the respective margin nudging higher near 14% as the pendulum of operating leverage swings to positive. Looking ahead, our numbers provide an indication of the sustainable profit generating capacity of the business.

Healthy balance sheet underpins the thesis; ESG top at group priorities.

As we have pointed out in the past, the extraordinary 2020 and 2021 earnings, as a result of the elevated medical sector sales, helped Thrace deliver a remarkable balance sheet deleveraging, with the business switching to net cash of €9m in end 2021 from €83.5m net debt in end 2019. This was the result of equity FCF in excess of €40m in both 2020 and 2021, with Thrace also proceeding to returns to shareholders of >€20m during these two years (€0.49 per share). Although OCF is set to trend down given the short-term challenges, Thrace is now in a financially more comfortable position to finance its investment plans (total of c€97m in 2020-22 period), while also continuing to reward shareholders. In the meantime, the group is committed to its sustainability strategy, through best ESG practices, testament to which the 'Platinum' 1st ranking award in Forbes Top 100 ESG Transparency Index. In 2022 the group has already rewarded shareholders with a €0.26/share dividend (€0.068/share interim and €0.19/share final). Looking ahead, our numbers assume dividends of c€9-10m per annum

(€0.22-0.24/share), in sync with earnings growth, corresponding to c5% yield. Balance sheet optionality remains a key pillar of the investment case.

Valuation

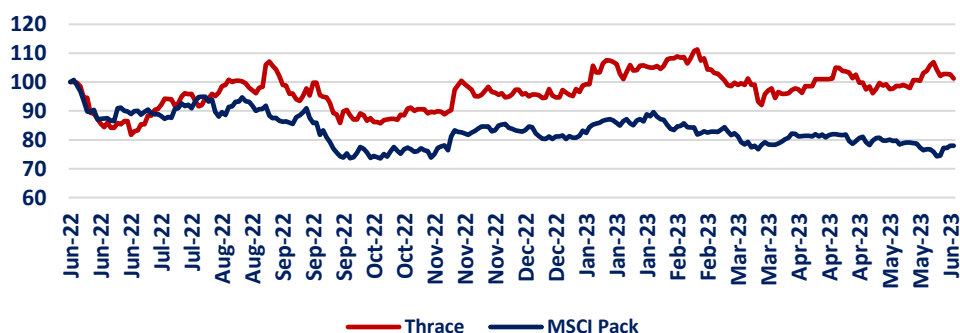
Thrace shed >40% in 2022 and is down c50% since peak, notwithstanding the fact that the medium-term outlook has not changed markedly. Our valuation returns a lower 12m fair value of €8.5/share, as a result of lower near-term estimates and the utilization of a slightly higher WACC (9.3% vs 9.0% previously). We estimate the current share price incorporates a flat EBIT near €25m post 2024, indicating a rather pessimistic set-up in our view, as it effectively implies value destruction in the future, i.e. incremental returns that will be consistently below WACC, something which would be contrary to the group's solid historic return track record.

2022 price performance dragged by rising costs

Share price performance and valuation

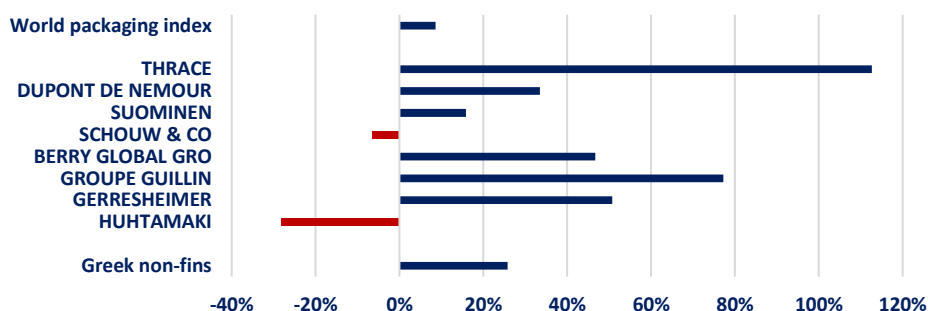
Thrace group shares shed c43% in 2022, reversing more than 200% gains in the aftermath of the pandemic, drawn by the significant raw material, energy & transport costs hike, along with the decelerating contribution of high margin PPE products, which though was an anticipated development. That said, Thrace has fallen significantly from its peak (-52%) though remains at double its pre-pandemic price levels (+113%). In the graph below, we can see Thrace's share price performance in the past year, which has underperformed Greek non-financials, while it has traded broadly in sync with world packaging companies.

1-year performance (rebased) – Thrace Plastics vs World packaging



Source: Eurobank Equities Research, Bloomberg.

Performance vs pre-covid levels (17-Feb 2020)

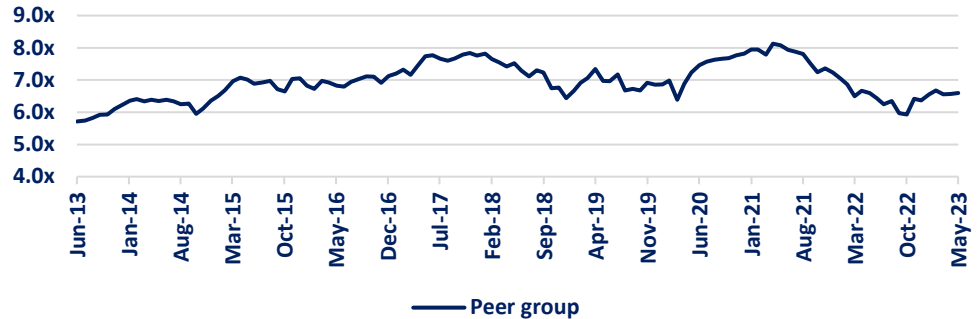


Source: Eurobank Equities Research, Bloomberg.

At an >30% discount to peers on EV/EBITDA multiples

From a valuation perspective, the historic EV/EBITDA valuation of a selective peer group, comprising companies involved in the broad packaging/specialty chemicals sector, shows a 10-year average forward-looking EV/EBITDA multiple of c7x, which lies above their current valuation (6.6x), justified partly by the challenging environment we are trading in. Thrace trades at a 12m fwd 4.2x EV/EBITDA, indicating a relative discount of (c36%) to peers.

12m forward EV/EBITDA valuation of peers



Source: Eurobank Equities Research, Bloomberg.

Similarly, looking at a broad set of comparable metrics, Thrace Plastics seems to constitute a good proposition, given the combination of attractive valuation, healthy balance sheet, similar margins vs peers and a similar yield outlook.

Peer group valuation

Stock	Mkt Cap	PE		EV/EBITDA		Dividend yield		Net debt /EBITDA
		2023e	2024e	2023e	2024e	2023e	2024e	1yr Fwd
THRACE PLASTICS (EEe)	184	10.6x	9.5x	4.4x	4.0x	5%	6%	0.6x
HUHTAMAKI OYJ	3,347	13.6x	12.3x	8.3x	7.8x	3%	4%	2.4x
GERRESHEIMER AG	3,744	22.2x	18.9x	12.0x	10.4x	1%	1%	2.6x
GROUPE GUILLIN	487	8.4x	7.3x	4.8x	4.5x	3%	3%	0.5x
BERRY GLOBAL GRO	6,918	8.6x	7.7x	7.6x	7.3x	2%	1%	3.7x
Median Packaging		11.1x	10.0x	8.0x	7.5x	2%	2%	2.5x
SCHOUW & CO	1,872	12.4x	10.7x	8.4x	7.6x	3%	3%	2.2x
SUOMINEN OYJ	161	29.8x	9.1x	7.4x	4.9x	4%	6%	1.5x
DUPONT DE NEMOUR	30,595	19.6x	16.8x	12.3x	11.2x	2%	2%	1.4x
Median Technical Fabrics		19.6x	10.7x	8.4x	7.6x	3%	3%	1.5x

Source: Eurobank Equities Research, Bloomberg.

12mth PT lowered on challenging near-term picture

DCF-based valuation returns a value ranging between c€320-440m

In our valuation methodology, we have raised our WACC assumption to reflect the tighter monetary policy settings, considering our lowered short term forecasts. Overall, our DCF-based valuation yields a €372m 12-month fair market cap, translating to a €8.5 price per share (vs €9.0 previously). Our baseline intrinsic fair value effectively places the stock at c8x 12mth forward EV/EBITDA.

Revisiting our base case DCF assumptions we now see:

- Sales CAGR of c5% over 2024-2028e, following a low 0.5% in the short term 2022-24e period;
- Reported EBIT CAGR of 13% over the 2024-28e period, with a 2.5pps margin expansion on positive operating leverage.
- A normalized terminal FCF near €37m and a sustainable growth of 0.5% based on a single-digit incremental ROIC, reasonable owing to the capital intensity of the industry.
- The implied FCF conversion (FCF/EBITDA) in the medium term (post 2025) stands at c47% on average, a level we consider feasible and consistent with a c5% sales growth incorporated in our numbers post 2026.
- We raise our WACC assumption to 9.3% (from 9% previously), to reflect the tighter monetary policy settings and tough industry conditions, maintaining a consistent relative risk profile of the business vis-à-vis the rest of our coverage universe.

A summary of our baseline DCF can be seen below:

Thrace Plastics DCF							
	2023	2024	2025	2026	2027	...	2032
NOPAT	18.9	21.1	24.7	28.6	33.2		
Depreciation	22.5	22.7	22.9	23.2	23.4		
Capex	(30.2)	(25.2)	(20.2)	(20.4)	(20.6)		
Working Capital	(3.2)	(1.6)	(3.2)	(4.2)	(4.4)		
Enterprise cash flow	7.9	17.0	24.2	27.2	31.6	...	37.2
PV	7.9	15.6	20.3	20.8	22.2	...	16.8
PV of terminal value	191.5						
Enterprise Value – end 2022e	371.9						
Net (debt) incl. leases / other claims	(6.0)						
Expected dividend	(9.5)						
Equity value (ex-div)	356.4						
no. of shares	43.7						
Per share	8.1 €						
1-year fair value (ex div)	372.4						
12-month indicative value per share	8.5 €						

Source: Eurobank Equities Research

A basic sensitivity on a combination of WACC and terminal growth rates is presented at the table below. As can be seen, flexing our WACC and perpetuity growth inputs by 1% and 0.5% respectively yields a fair value range between €323m and €441m.

DCF Sensitivity		Perpetuity growth				
WACC		-0.5%	0.0%	0.5%	1.0%	1.5%
		8.3%	396	410	424	441
8.8%		373	384	397	411	427
9.3%		352	362	372	384	398
9.8%		333	341	351	361	373
10.3%		316	323	331	340	350

Source: Eurobank Equities Research

2022: Exposed to elevated cost inflation and waning demand trends, while comparing to a high base

2022 a tough year amid waning demand trends and high costs

In 2022 Thrace exhibited declining volumes driven by the pullback witnessed in industrial products demand. In the meantime, unit prices dropped by c3% yoy, dragging the revenue base, while elevated cost inflation further weighed on 2022 profitability. Worth highlighting the high base vs record 2021 figures (pumped by the significant contribution of health-care related products (62% of group PBT levels).

2022 revenues declined by 8% yoy to €394m, driven by a 5.5% yoy volume drop and a 2.6% yoy decline in blended pricing (c€3.6 per unit). On the profitability front, the lower sales topped by the sustained elevated cost base (+14% yoy COGS/case rise), burdened 2022 EBITDA, which landed at €48.3m, with the respective margin dropping by 12pps yoy to 12.2%. At PBT level, an extraordinary gain of €4.6m relating to OAED receivables offsetting decision, acted as a boost topping the €5.3m PBT from PPE products. As a result 2022 PBT stood at €32m, or €22m underlying, and this compares to underlying PBT €32.1m a year ago (-31% yoy). Net profit shaped at €25.8m in 2022. Despite the significant yoy drop, underlying profitability stood materially higher than 2019 levels.

Thrace Plastics FY'22 short P&L					
EUR mn	FY'19	FY'21	FY'22	yoy %	vs. 2019
Sales	298.3	428.4	394.4	-7.9%	32%
EBITDA (cont. ops)	30.8	103.8	48.3	-53.5%	57%
EBITDA Margin	10.3%	24.2%	12.2%	-12.0pps	1.9pps
EBT (cont. ops) *	11.8	83.9	32.1	-61.8%	132%
of which PPE EBT	0.0	51.8	5.3		
of which one-off gain	0.0	0.0	4.6		
of which underlying	11.8	32.1	22.2	-31.0%	88%
EAT (cont. ops) *	7.2	65.4	25.8	-60.6%	257%
DPS (EUR)	0.05	0.27	0.26		
Net Debt / (cash)	83.5	-9.3	21.5		

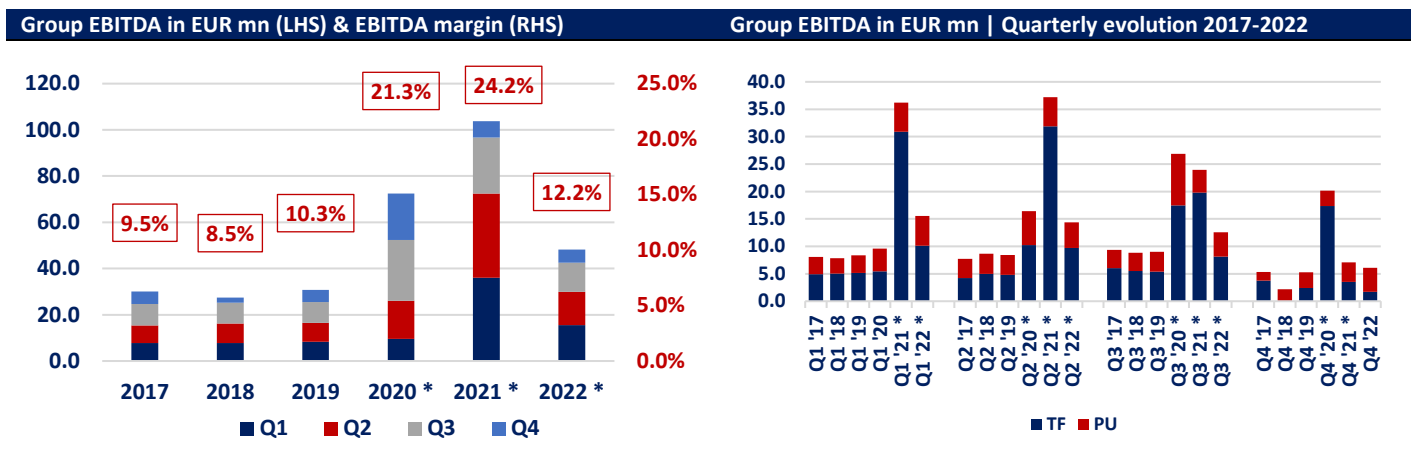
Source: Company, Eurobank Equities Research
* includes €4.6m one-off gains and €5.3m mask-related profit (pre-taxes)

Quarterly performance points to soft Q4 based on history

Taking a closer look into quarterly performance we notice that the last quarter of the year, the seasonally smaller, turned marginally negative in 2022 (as also in 2019, pre-the covid boost). 2022 kicked off with a promising start (Q1), before the war, geopolitical tensions and supply chain disruptions came into the picture, while raising inflationary pressures further burdened profitability. It is worth mentioning that non-traditional health care products (PPE) were responsible for the extraordinary picture between end Q2'20 and Q3'22, as can be seen in the chart below.

Thrace Plastics quarterly snap overview																
EUR mn	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Sales	83.6	71.6	75.3	67.8	74.0	81.4	98.4	86.0	111.4	122.9	107.3	86.9	106.3	106.5	103.4	78.3
EBITDA	8.4	8.1	9.1	5.2	9.5	16.5	26.4	20.1	36.0	36.5	24.2	7.1	15.5	14.4	12.6	5.7
EBITDA Margin	10.0%	11.3%	12.1%	7.7%	12.9%	20.3%	26.8%	23.4%	32.3%	29.7%	22.6%	8.2%	14.6%	13.6%	12.2%	7.3%
EBT	3.1	4.4	5.4	-1.1	4.7	12.1	21.6	13.7	29.4	32.6	19.0	3.0	10.7	9.3	12.1	-0.1
o/w PPE *						4.8	8.4	9.5	20.6	20.3	9.8	1.1	4.3	0.4	0.6	0.0
o/w one-off**						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.6	0.0
Underlying EBT	3.1	4.4	5.4	-1.1	4.7	7.3	13.2	4.2	8.8	12.3	9.2	1.9	6.4	8.9	7.0	-0.1

Source: Company, Eurobank Equities Research
* temporary boost from PPE products; ** one-off gains of EUR 4.6m relating to reversal of LT receivable relating to OAED



Source: Company, Eurobank Equities Research.
 * Numbers include temporary boost from PPE products

Per division, Technical fabrics revenues dropped 13.9% yoy to €274.5m, with the EBITDA down to €29.7m (-66% yoy) and the respective margin landing at 10.8% (-16.2pps yoy), as profitability normalized due to the payback in demand for health care products (PPE). We see a more sustainable picture in the packaging division with FY'22 sales at €132.7m (+10.6% yoy) and EBITDA at €18.9m (+3.4% yoy), implying a respective margin of 14.2% (-1pp yoy).

Divisional FY'22 Review			
	FY'21	FY'22	yoy %
Sales (EUR mn)			
Technical Fabrics	318.9	274.5	-13.9%
Packaging	120.0	132.7	10.6%
Other/Intra-segment elim.	5.7	5.7	-0.2%
Group Sales	428.4	394.4	-7.9%
EBITDA (EUR mn)			
Technical Fabrics	86.1	29.7	-65.5%
Packaging	18.3	18.9	3.4%
Other/Intra-segment elim.	-0.6	-0.3	-48.6%
Group EBITDA	103.8	48.3	-53.5%
% EBITDA margins			
Technical Fabrics	27.0%	10.8%	-16.2 pps
Packaging	15.2%	14.2%	-1.0 pps
Group	24.2%	12.2%	-12.0 pps

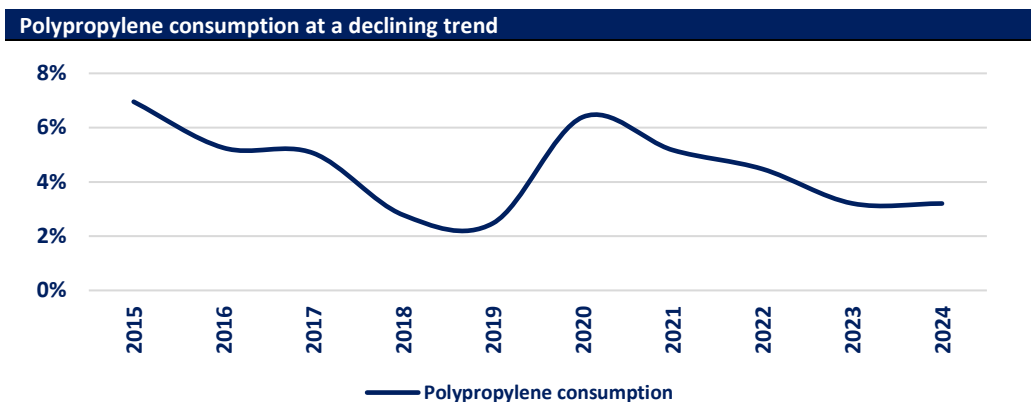
Source: Company, Eurobank Equities Research

Mild underlying 2023 recovery as near-term challenges remain

Mild 2023 recovery path...

The challenging environment (rising rates, recessionary fears, financing system turmoil) should continue to weigh on Thrace group’s demand, with slow volume recovery on our estimates (via lower inventory turnover), while market dynamics seem to have also changed (smaller and more frequent orders placed). In the meantime, the cost base remains elevated, despite declining trends witnessed in raw material costs, owing largely to sustained high production & transport costs (also the case of all manufacturing/industrial groups), while the passing on of cost inflation remains tough (more limited price/cost improvement).

We showcase below the global polypropylene consumption, trying to depict the slowing pace, which could be representative of the demand momentum.



Source: Eurobank Equities Research, Bloomberg

...as demand and cost pressures filter through to 2023e

With trends indicating fading consumption among EU industrials, this has made it more difficult for Thrace Plastics to filter through price increases, thus weighing further on group 2023e revenues. This translates to lower 2023 volume projections of 112.7m units, indicating just 3% yoy growth (and -11% vs our previous estimate for 126m units). We see a further decline in unit prices, estimating a €3.46 blended pricing per unit (-4.4% yoy) impacted by higher fixed costs absorption. Thus, we forecast 2023 revenues of €389m in 2023, down by 1% yoy (compared to our earlier forecast for +10% yoy).

On the cost front, we fine tune both our raw material and production costs assumptions to picture current trends. As such we assume only a mild correction in COGS/case (-4% yoy), following an >30% cumulative rise in the past two years, while on the opex front we see a sustained high operating base at >15% of sales. Consequently, our FY’23e EBITDA forecast is set at €46.7m (vs our previous forecast of €57.6m), with the EBITDA margin landing at 12.0% in 2023. We see EBIT at €24.2m, with the EBIT margin at 6.2%. Worth noting that the margin remains above 2019 levels (pre-PPE products boost) of 10.3% and 5.2% in EBITDA and EBIT respectively, showcasing the significant cost rationalization undergone. We now estimate continuing PBT of €22.8m in 2023, up by a marginal 3% yoy when comparing to an underlying €22.2m in 2022, with net profit standing at €17.3m in 2023e.

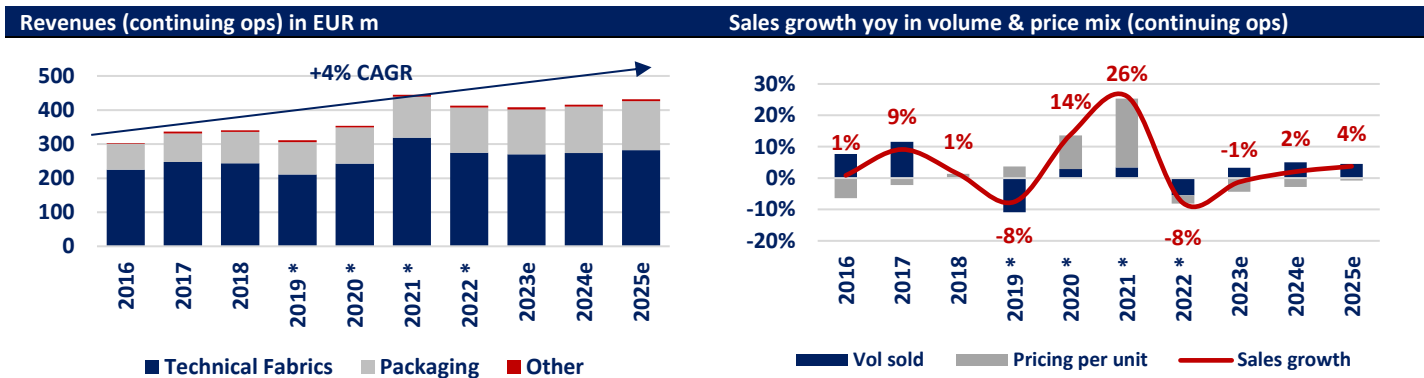
Looking ahead strong positioning underpins mid-term EBIT

Volume driven revenue growth ahead; 2023-27e +4.5% revenue CAGR...

Looking into 2024-25 we assume volumes gradually pick up to a mid-single digit range, though we believe that prices will lag volume growth remaining under slight pressure in the near term.

Revisiting our revenue drivers, we can see in the chart below the volume/price mix growth components of sales. As a reminder, 2020 and 2021 numbers incorporate extraordinary demand from health and personal protective products and 2019 negative growth accounts for the restructuring of Thrace Linq in the USA. 2022 witnessed negative volume growth and a drop in prices, thus leading to -8% yoy sales growth, notwithstanding the high comparative vs 2021

boosted figures. Looking ahead, as we have mentioned, we depict +3% volume growth in 2023 and a further +5% bounce back in both 2024 and 2025, aided by lagging demand, though with still see weak price/mix (-4% yoy in 2023, -1% to -3% in 2024-25e), leading to revenue growth of +2-4% yoy in 2024-25e, before picking up to c6% yoy in 2026e. On our numbers, we calculate c4% revenue CAGR in the 4-year period ahead of 2022 (2023-27e), which is entirely volume driven (+4.5%) as we assume a significant pricing lag owing to 1) hampered demand, 2) product mix and 3) contract structures.



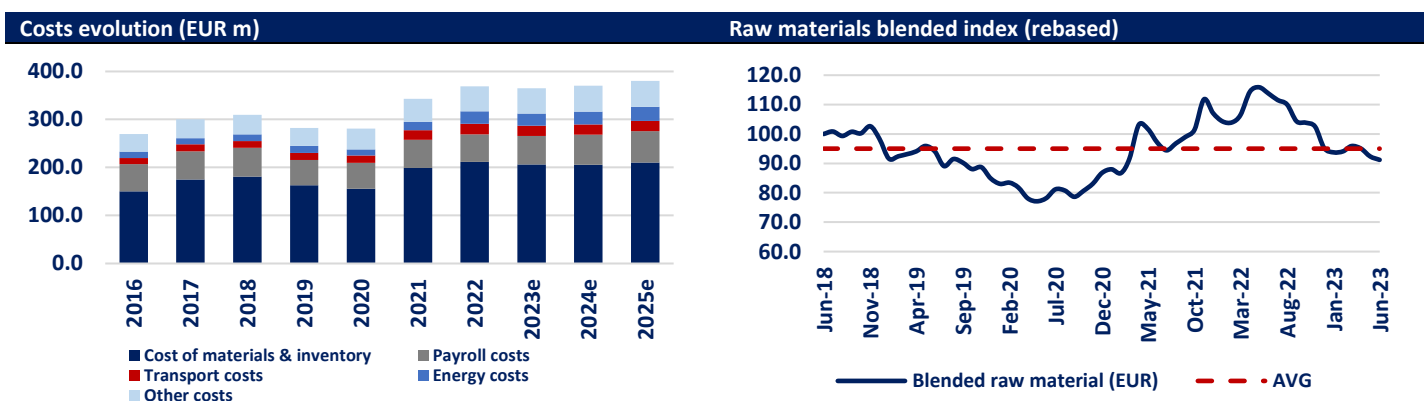
Source: Company, Eurobank Equities Research

* 2019 numbers include only continuing operations; 2020-22 numbers include significant temporary boost from PPE products

...amid slightly decelerating cost base; 2023-27e +3.5% total costs CAGR

Having said that, within the current environment we maintain fairly elevated cost estimates with total costs near last year levels, mainly driven by the input inventory pile up at higher cost prices. This is partly offset by the decelerating trend seen in blended raw material costs since mid-2022 and a slight drop in production unit costs (namely energy, wages, etc). These seem to gradually feed into our numbers, with our FY'23e COGS unit cost estimate featuring a c4% yoy drop and a feeding into a slightly higher 2023 EBITDA of €46.7m (+8.7% yoy on an underlying basis) while improving further looking ahead to c€50m and above from 2024e on.

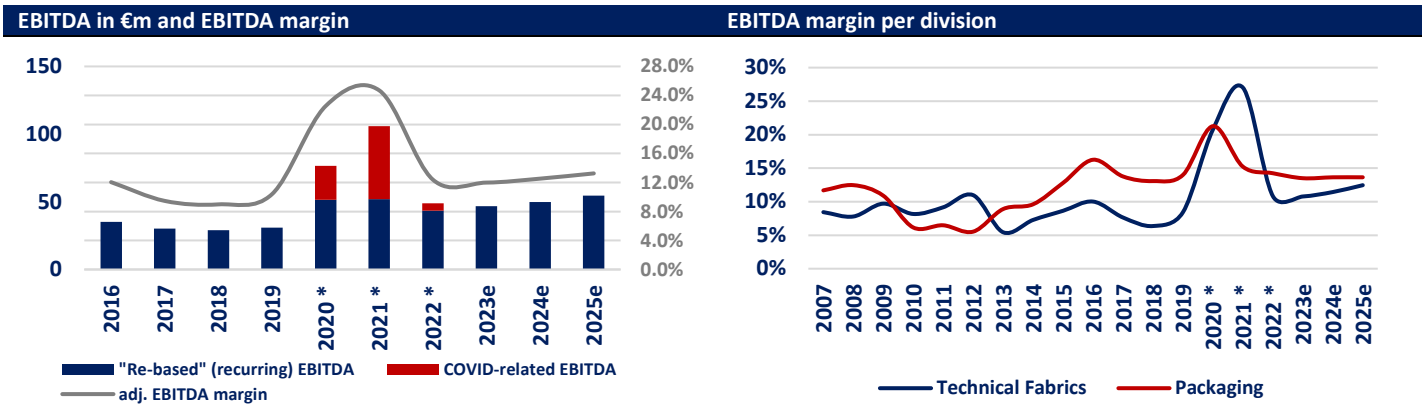
We showcase below our assumptions on material, transport, energy costs and payrolls, while also calculating a blended input costs index (weighed by raw material significance in COGS).



Source: Company, Eurobank Equities Research, Bloomberg.

Medium-term underpinned by operating leverage and investments; c9% 2023-27e EBITDA CAGR

We see a gradual acceleration in the EBITDA margin (from c12% in 2023e to c14% in 2027e), primarily driven by a c3pps increase in technical fabrics to >12% and some 13-14% sustained margin in the packaging unit. This comes as a result of operating leverage and growth investments. Overall, assuming c€43m underlying EBITDA in 2022 (ex some €5m in masks), we estimate a c8.7% yoy growth in 2023e EBITDA (€46.7m) and a gradual recovery >€50m from FY'24 on. Regarding PPE products, these are immaterial and included in the traditional portfolio post 2023. We calculate a 9% EBITDA CAGR in the 2023-27e period, with the EBITDA margin rerating higher near the 14% mark, up from 10% in the pre-covid era.



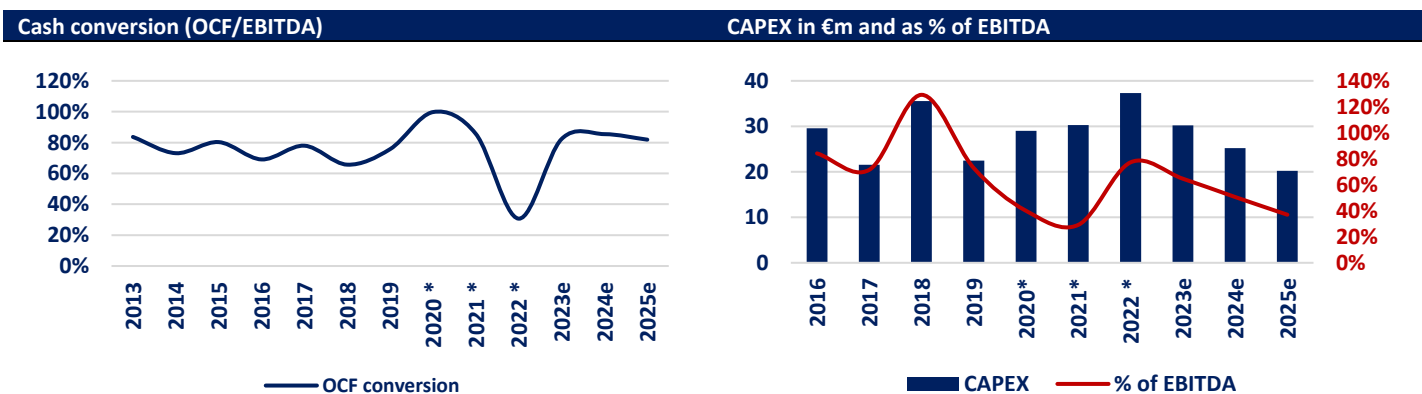
Source: Company, Eurobank Equities Research
 * 2020-22 numbers include significant temporary boost from PPE products

Healthy balance sheet key to solid cash flow outlook

Cash flows supported by strong OCFs in the past two years, enabling continuing investments

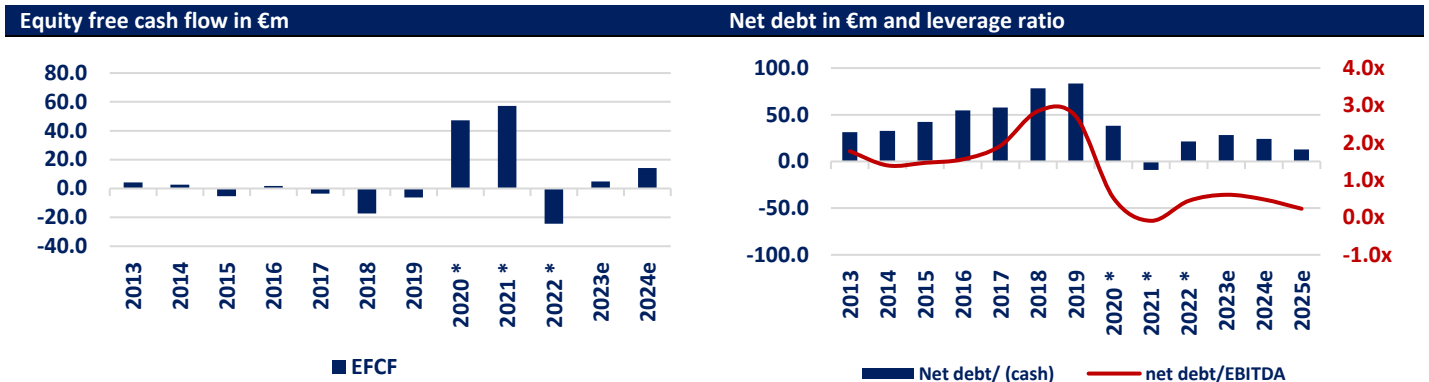
The group's cash flow generation ability remains solid, with OCF conversion >70% on average in the past 10 years, mainly driven by efficient working capital management. In 2022, we witnessed a 31% conversion eroded by the high working capital needs, nonetheless we expect this will bounce back to normal post 2023.

In the meantime, the group's healthy balance sheet has allowed it to continue investing (c€100m in 2020-22 period) in both growth opportunities and business development (backed by its solid cash flow generation >€100m in the 2020-2021 period). In the current year the capex envelope is set at c€30m, trending to c€20-25m as we look ahead. The group has already engaged in a new pilot investment in paper packaging (launching paper cup products range) aiming to complement its plastic cups offering to its customers. Further planned capex includes investments in 1) spunbond conversion production process 2) a new lamination film line in food packaging, 3) automation/robotics in production, 4) capacity growth in packaging, 5) expansion in greenhouses and 6) RES investments (additional 5MW photovoltaics).



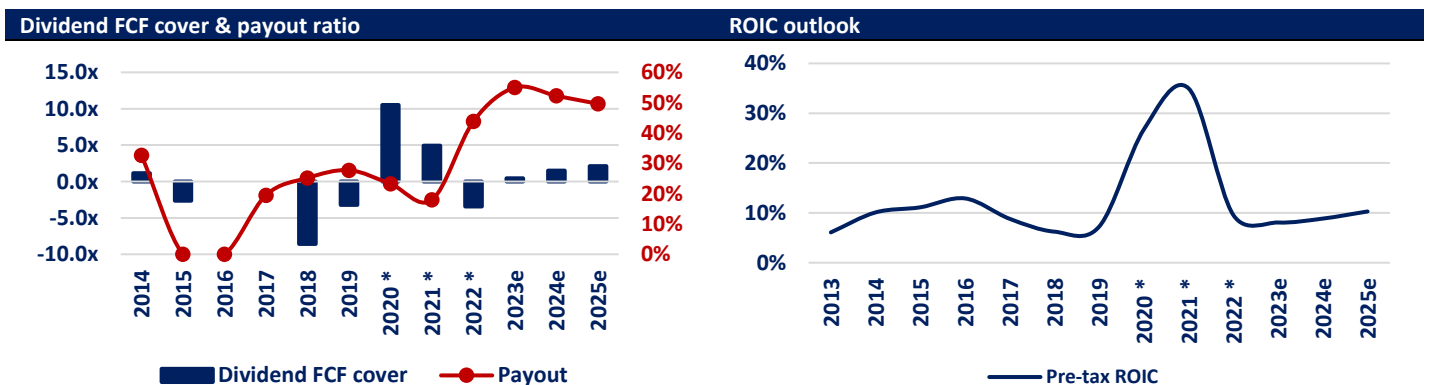
Source: Company, Eurobank Equities Research
 * 2020-22 numbers include significant temporary boost from PPE products

Thrace group continues enjoying a healthy financial position with a net debt position of €21.5m (year-end 2022). As a reminder, equity free cash flow shot up to >€40m in both 2020 and 2021, supported by the strong operating profitability, with the group ending 2021 on a net cash position of €9m. Worth mentioning that Thrace's piled up cash in the 2020-21 period, whilst at the same time reducing its debt load, have proven very important for its operational efficiency through the current backdrop.



Source: Company, Eurobank Equities Research
 * 2020-22 numbers include significant temporary boost from PPE products

Thrace group's strategy of a balanced expansion/capital allocation in the business with shareholder remuneration is sustained. The group distributed a dividend of €0.27/share in the past year, while it has also announced a total dividend for 2022 of €0.26/share (c6% div. yield and 64% payout out of underlying profit). Looking post 2022, we maintain a payout ratio assumption near c50-55%, assuming the group will continue rewarding shareholders and also continue to build up cash for meaningful investments. On our numbers, pre-tax ROIC is estimated at c8% in 2023e, indicating the challenging environment faced, whilst the company remains focused on its investment plans. We expect a recovery >10% in the future (2025 on) thanks to a rising EBIT margin forecast to >8% and some €20-25m annual capex aimed to support the mid-single digit revenue growth post 2025e. Worth reminding that in the 2020-21 period, group ROIC shot up to 35% on the back of strong operating profitability, which filtered through to investments.



Source: Company, Eurobank Equities Research
 * 2020-22 numbers include significant temporary boost from PPE products; translated also into higher shareholder returns

Summing up our forecast changes

Amalgamating the aforementioned trends, we sum up our forecast changes below:

1. We trim our volume forecasts by 11%-12% for 2023-25e on a lighter order book, given tough macro and industry conditions. The challenging demand environment is combined with changes in our pricing assumptions (in the range of -5% to 0%). Thus, we end up with lower sales forecasts of some -11% to -16% in 2023-25e.
2. Though we maintain an elevated COGS base, we see a mid-single digit decline in short term unit costs, driven by the drop in raw materials prices, exacerbated by decelerating trends in production/operating unit costs, with mid-term estimates starting to benefit from operating leverage.
3. Nonetheless we still lower our forecasts by 19-23% at the EBITDA line for years 2023-25e. We come up with a €47m 2023e EBITDA (+9% yoy on an underlying basis, namely ex masks, or -3% yoy), with the EBITDA margin forecast down to 12% (-0.2pps yoy). In 2024-25e we model an underlying margin improvement (to the tune of +0.5-0.7pps yoy), on gradually accelerating EBITDA growth, with our EBITDA forecast near €50m in 2024 and €55m in 2025e.

Thrace Group New vs. Old forecasts			
	2023e	2024e	2025e
New (EUR mn)			
Sales	389	397	412
EBITDA	47	50	55
PBT	23	26	30
Net Income	17	19	23
Old (EUR mn)			
Sales	437	464	491
EBITDA	58	64	69
PBT	34	40	45
Net Income	26	31	34
new vs old (%)			
Sales	-11%	-14%	-16%
EBITDA	-19%	-23%	-21%
PBT	-32%	-36%	-32%
Net Income	-33%	-36%	-33%

Source: Company, Eurobank Equities Research

Based on the above, our FY'23e underlying group PBT forecast is seen at €22.8m, compared to €22.2m underlying in 2022, while looking ahead into 2024-25e we eye €25.6m and €30.3m group underlying PBT, respectively.

Group short P&L						
(EUR m)	2020 *	2021 *	2022 *	2023e	2024e	2025e
Vol sold (m tons)	111.8	115.5	109.2	112.7	118.4	123.8
growth	3%	3%	-5%	3%	5%	5%
Pricing per unit (EUR)	3.04	3.71	3.61	3.46	3.36	3.33
growth	11%	22%	-2.6%	-4.4%	-2.9%	-0.7%
Sales	339.7	428.4	394.4	389.4	397.4	412.3
Sales growth	14%	26%	-8%	-1%	2%	4%
Gross Profit	106.0	140.1	84.3	83.0	86.6	92.1
margin	31.2%	32.7%	21.4%	21.3%	21.8%	22.3%
EBITDA	72.5	103.8	48.3	46.7	49.8	54.6
margin	21.3%	24.2%	12.2%	12.0%	12.5%	13.3%
PBT	52.1	83.9	32.1	22.8	25.6	30.3
margin	15.3%	19.6%	8.1%	5.9%	6.4%	7.3%
PBT attributed to PPE	22.7	51.8	5.3	0.0	0.0	0.0
PBT one-off gain	0.0	0.0	4.6	0.0	0.0	0.0
PBT underlying	29.4	32.1	22.2	22.8	25.6	30.3
Net Income	40.7	65.4	25.8	17.3	19.5	23.1
EPS (EUR)	0.93	1.50	0.59	0.40	0.44	0.53
DPS (EUR)	0.22	0.27	0.26	0.22	0.24	0.27

Source: The Company, Eurobank Equities Research

* 2020-22 numbers include significant temporary boost from PPE products

Estimates per division

The table below summarizes our key divisional estimate changes. We also try to showcase a short divisional P&L with reference to PPE products in 2020-22 period.

Thrace New vs. Old forecasts per segment			
Technical Fabrics	2023e	2024e	2025e
New (EUR mn)			
TF Sales	270	274	282
EBITDA	29	31	35
Old (EUR mn)			
Sales	307	324	342
EBITDA	39	44	47
new vs old (%)			
Sales	-12%	-16%	-17%
EBITDA	-25%	-28%	-25%
Packaging	2023e	2024e	2025e
New (EUR mn)			
PU Sales	132	136	144
EBITDA	18	19	20
Old (EUR mn)			
Sales	137	146	156
EBITDA	19	20	22
new vs old (%)			
Sales	-4%	-7%	-8%
EBITDA	-7%	-9%	-10%

Source: The Company, Eurobank Equities Research

Short P&L - Divisional Estimates						
Technical Fabrics (EUR m)	2020*	2021*	2022 *	2023e	2024e	2025e
Vol sold (m tons)	79.6	80.7	76.1	79.5	83.1	86.8
growth	3%	1%	-6%	4%	4%	5%
Pricing per unit (EUR)	3.1	3.9	3.6	3.4	3.3	3.3
growth	12%	29%	-9%	-6%	-3%	-2%
Sales	243.1	318.9	274.5	270.3	274.1	282.1
growth	15%	31%	-14%	-2%	1%	3%
Gross Profit	74.9	113.2	56.5	57.0	59.8	63.9
margin	30.8%	35.5%	20.6%	21.1%	21.8%	22.6%
EBITDA	50.5	86.1	29.7	29.1	31.3	35.2
margin	20.8%	27.0%	10.8%	10.8%	11.4%	12.5%
PBT	37.7	72.4	20.1	12.5	13.7	17.9
margin	15.5%	22.7%	7.3%	4.6%	5.0%	6.3%
<i>of which:</i>						
PBT attributed to PPE	19.5	49.9	3.0			
PBT ex-PPE	18.2	22.5	17.1	12.5	13.7	17.9
Packaging (EUR m)	2020*	2021*	2022 *	2023e	2024e	2025e
Vol sold (m tons)	36.3	39.4	38.5	38.7	40.9	42.5
growth	2%	8%	-2%	0%	5%	4%
Pricing per unit (EUR)	2.9	3.0	3.44	3.40	3.33	3.4
growth	9%	5%	13%	-1%	-2%	1%
Sales	105.7	120.0	132.7	131.7	136.0	143.6
growth	11%	14%	11%	-1%	3%	6%
Gross Profit	30.7	26.5	27.2	25.5	26.2	27.7
margin	29.1%	22.1%	20.5%	19.3%	19.3%	19.3%
EBITDA	22.5	18.3	18.9	17.8	18.5	19.6
margin	21.3%	15.2%	14.2%	13.5%	13.6%	13.6%
PBT	15.3	12.1	12.2	10.5	12.0	12.6
margin	14.5%	10.1%	9.2%	8.0%	8.8%	8.8%
<i>of which:</i>						
PBT attributed to PPE	3.2	1.9	2.3			
PBT ex-PPE	12.1	10.2	9.9	10.5	12.0	12.6

Source: The Company, Eurobank Equities Research
* 2020-22 numbers include significant temporary boost from PPE products

Q1'23 results overview

High base effect and soft demand trends impacting Q1 performance, as expected

Thrace Plastics reported Q1'23 results broadly in line with expectations, driven by a slow recovery in demand trends and elevated costs, while cycling a strong base in Q1'22 which included extraordinary Covid-19 related sales and profit. Looking into H1'23 mgt indicated fairly similar underlying performance vs. last year, thus pointing to an EBITDA near €25m.

In specific, Q1'23 sales were down 12.5% yoy to €93m, of which some -4% yoy comes from volume decline and some -8% yoy from price mix (comparing to a high base vs Q1'22 price increases). On the cost side, cost inflation remained elevated, albeit at a decelerating pace with some decompression seen in raw material and transport costs, thus leading to group EBITDA of €11.7m and a respective margin of 12.5%. Worth reminding that Q1'22 included extraordinary mask related profit (€4.3m at EBT level). EBT shaped at €5.4m, comparing directly to €6.4m underlying a year ago (ex-masks). Q1'23 net profit came in at €3.8m in Q1'23.

Solid operational cash flow aided by WC

On the cash flow front, the group ended Q1'23 with a net debt of €14.8m, indicating inflows of €6.7m vs 2022 year-end, mainly owing to the resilient operational performance (solid WC recovery) and despite some €5m carried out in investments and €3m in dividend distribution within Q1'23.

Thrace Plastics Q1'23 short overview

EUR mn	Q1'22	Q1'23	yoy %
Sales	106.3	93.0	-12.5%
Gross Profit	24.7	20.7	-16.3%
Gross Margin	23.2%	22.2%	-1.0pps
EBITDA reported	15.5	11.7	-25.0%
EBITDA Margin	14.6%	12.5%	-2.1pps
Comp. EBITDA (ex PPE)	11.2	11.7	3.8%
EBT reported	10.7	5.4	-49.8%
of which PPE EBT	4.3	0.0	
of which underlying	6.4	5.4	-16.2%
EAT reported	8.7	3.8	-56.3%
OCF	-12.7	14.9	
Net Debt / (cash)	-12.4	-14.8	

Source: Company, Eurobank Equities Research

Technical fabrics comparing to a high base; performance underpinned by packaging

Per division, we witnessed a 14% yoy drop in technical fabrics revenues, with the EBITDA dropping a higher 34% yoy to €6.6m, weighed by the significant contribution of covid-19 related products in Q1'22. In the packaging division revenues also dropped by 8% yoy, mainly as a result of soft demand, though cost rationalization moderated the negative impact at the EBITDA level, with packaging EBITDA down 4% yoy to €5.2m and the respective margin improving by 1pp yoy.

Results breakdown by business unit

Sales (EUR mn)	Q1'22	Q1'23	yoy %
Technical Fabrics	75.6	64.7	-14%
Packaging	34.4	31.6	-8%
Other/Intra-segment elim.	-3.8	-3.4	-11%
Group	106.3	93.0	-12%
EBITDA (EUR mn)			
Technical Fabrics	10.1	6.6	-34%
Packaging	5.4	5.2	-4%
Other/Intra-segment elim.	0.0	-0.2	
Group EBITDA	15.5	11.7	-25%
Comp. EBITDA (ex PPE)	11.2	11.7	4%
EBITDA margins			
Technical Fabrics margin	13.3%	10.3%	-3pps
Packaging margin	15.8%	16.5%	+1pps
Group EBITDA margins	14.6%	12.5%	-2pps

Source: Company, Eurobank Equities Research

Group Financial Statements

Thrace Plastics Group (in EUR mn)					
Group P&L	2021 *	2022 *	2023e	2024e	2025e
Sales	428.4	394.4	389.4	397.4	412.3
Gross Profit	140.1	84.3	83.0	86.6	92.1
EBITDA	103.8	48.3	46.7	49.8	54.6
change	43.2%	-53.5%	-3.3%	6.7%	9.7%
EBITDA margin	24.2%	12.2%	12.0%	12.5%	13.3%
EBIT	83.9	27.4	24.2	27.1	31.7
Financial income (expense)	-2.8	-2.4	-3.4	-3.3	-3.1
Exceptionals / other income	2.8	7.1	2.0	1.8	1.6
PBT	83.9	32.1	22.8	25.6	30.3
Income tax	-18.1	-5.8	-5.0	-5.6	-6.7
Non-controlling interest	-0.4	-0.5	-0.5	-0.5	-0.5
Net profit	65.4	25.8	17.3	19.5	23.1
EPS (EUR)	1.50	0.59	0.40	0.44	0.53
DPS (EUR)	0.27	0.26	0.22	0.24	0.27
Group Cash Flow Statement					
EBITDA	103.8	48.3	46.7	49.8	54.6
Change in Working Capital	-0.4	-26.4	-3.2	-1.6	-3.2
Net interest	-1.7	-1.8	-2.4	-2.3	-2.1
Tax	-17.5	-9.2	-5.0	-5.6	-6.7
Other	3.0	2.2	0.0	0.0	0.0
Operating Cash Flow	87.1	13.0	36.0	40.2	42.7
Capex	-30.3	-37.9	-30.2	-25.2	-20.2
Other investing	5.2	1.3	0.0	0.0	0.0
Net Investing Cash Flow	-25.1	-36.5	-30.2	-25.2	-20.2
Dividends	-11.6	-7.1	-11.3	-9.5	-10.2
Other (incl. payment of lease liab.)	-3.0	-0.1	-1.4	-1.2	-1.0
Net Debt (cash) (incl. leases)	-9.3	21.5	28.4	24.1	12.8
Free Cash Flow (adj.)	57.9	-24.4	4.9	14.1	21.6
Group Balance Sheet					
Tangible Assets	153.8	169.2	181.1	183.6	180.9
Intangible Assets	10.5	10.5	10.6	10.6	10.7
Other non-current Assets	26.6	30.1	28.3	30.2	31.8
Non-current Assets	190.9	209.8	220.0	224.5	223.4
Inventories	71.8	76.4	75.5	76.2	78.3
Trade Receivables	64.5	64.8	67.2	67.8	69.7
Other receivables	14.6	14.2	14.0	14.3	14.9
Cash & Equivalents	63.2	39.6	39.7	40.9	42.9
Current Assets	214.3	195.0	196.3	199.3	205.7
Total Assets	405.2	404.8	416.3	423.8	429.1
Shareholder funds	248.5	263.7	269.7	279.7	292.7
Non-controlling interest	3.7	4.1	4.6	5.1	5.6
Total Equity	252.3	267.9	274.4	284.8	298.2
Long-term debt	33.6	31.6	31.0	30.4	29.8
Other long-term liabilities	12.5	12.7	12.7	12.6	12.6
Long Term Liabilities	46.1	44.3	43.7	43.1	42.4
Short-term debt	17.4	27.0	34.6	32.2	23.5
Trade Payables	55.4	40.6	40.1	40.9	42.5
Other current liabilities	34.0	25.0	23.5	22.8	22.4
Current Liabilities	106.8	92.6	98.2	95.9	88.5
Equity & Liabilities	405.2	404.8	416.3	423.8	429.1
Key Financial Ratios					
P/E	4.1x	7.7x	10.6x	9.5x	8.0x
P/BV	1.1x	0.7x	0.7x	0.7x	0.6x
Adj. EV/EBITDA	2.4x	4.3x	4.4x	4.0x	3.5x
EBIT/Interest expense	22.5x	6.2x	6.9x	7.9x	10.1x
Net Debt (cash)/EBITDA	-0.1x	0.4x	0.6x	0.5x	0.2x
Dividend Yield	4.5%	5.8%	5.3%	5.6%	6.3%
ROE	31.1%	10.1%	6.5%	7.1%	8.1%
Free Cash Flow yield	21.7%	-12.4%	2.7%	7.7%	11.7%
Payout Ratio	18.0%	63.9%	55.0%	52.3%	49.6%

Source: Eurobank Equities Research

Company description

Thrace Plastics is engaged in the production and trade of Plastics products such as Technical Fabrics and Packaging materials, recently also adding paper products to its portfolio, and to a lower extent in Hydroponic agriculture, with facilities in 9 countries and a broad sales network to over 80 countries. The group produces 28 different technologies, with applications in 25 diverse market segments.

Risks and sensitivities

•**Macro:** Given its high exposure to EU and UK (c90% of sales), it is dependent on the European macro environment. As such any significant strengthening/weakening of demand in some of the main markets or significant share gains/losses pose upside/downside risks to our thesis.

•**Raw material costs:** Input costs (mainly polypropylene-PP) account for c55% of total costs. Thrace Plastic's profitability is dependent upon its pricing power.

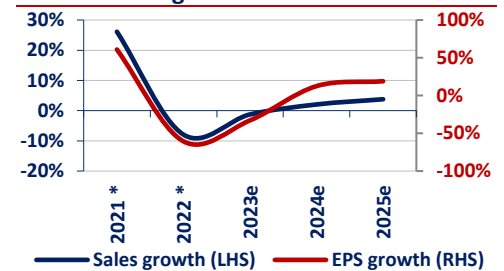
•**Working capital risk:** Raw material cost volatility could affect inventories' value.

•**Sector risk:** Thrace Plastic's competes against multinationals and local brands. Competitive activity particularly in the packaging sector may be intense as participants strive to gain market share, thereby putting pressure on margins.

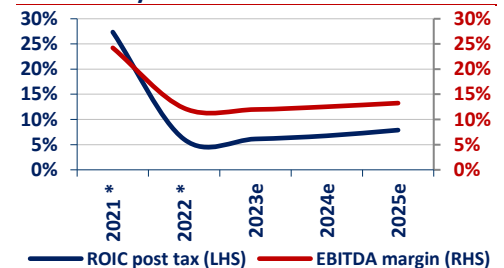
•**Price/mix:** stronger/weaker price/mix than assumed in our model would result in stronger/weaker sales growth.

•**Sensitivity:** We estimate that flexing our volume assumption by 1% would result in a c3-5% in 2023-24e group EBITDA. Similarly, were we to change our price/mix assumption by 1%, the impact on group EBITDA would be c7-8%. Finally, for a 1% increase in raw materials unit costs, our EBITDA forecast drops by c4-5% in 2023-24e.

Sales and EPS growth



Profitability and returns



* 2020-22 numbers include temporary boost from PPE products

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This report has been written by Natalia Svyriadi (Equity Analyst).

Analyst Compensation:

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12-month Rating History of Thrace Plastics

Date	Rating	Stock price	Target price
08/06/2023	Not Rated	€4.21	-
04/07/2022	Not Rated	€3.45	-
25/01/2022	Not Rated	€ 6.10	-
11/10/2021	Not Rated	€ 6.98	-

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients	
	Count	Total	Count	Total
Buy	17	63%	1	6%
Hold	3	11%	0	0%
Sell	0	0%	0	0%
Restricted	1	4%	0	0%
Under Review	2	7%	1	50%
Not Rated	4	15%	0	0%
Total	27	100%		

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
Restricted:	Under Eurobank Group policy and / or regulations which do not allow ratings
Under Review:	Our estimates, target price and recommendation are currently under review
Not Rated:	Refers to Sponsored Research reports