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THRACE PLASTICS

Resilient in a precarious backdrop

Protracted low demand makes a challenging near-term backdrop... – Subdued demand has aggravated the near-term challenges for the group, as was evident in the H1'23 results, with group turnover -15% yoy and underlying EBITDA (adjusted for PPE products profitability in H1'22) down by a lower c5% yoy to €24m (-20% reported). The revenue drop was driven by both lower volumes and pricing (caused by raw materials price fall), with the protracted slow demand further exacerbated by the effect from the tough comparative. That said, the underlying performance of the group is better than the optics suggest, as the current year is the first with no extraordinary contribution from PPE products. On an underlying basis, namely excl. PPE, H1 PBT was down c€3m, still quite a respectable performance in our view.

... leading to moderately lower forecasts; 2023e EBITDA still >35% higher than pre-covid figures – We trim our 2023-24e EBITDA forecasts by c6-9%, in the light of the challenging industry backdrop, which we see stretching though to H1'24. We now forecast 2023 EBITDA of €42m, a tad lower yoy on an underlying basis (namely excluding the contribution from PPE), which is quite commendable given the demanding environment. This will be driven by a c7% yoy drop in 2023 revenues (€366m) stemming from a c3% decline in 2023e volume weighed further by price/mix. We assume a recovery in volumes in 2024, albeit on sustained price deflation, thus ending up with c2% revenue growth next year. Despite the tepid top line, we stress that underlying profitability remains materially higher than 2019 levels, with 2023-24e EBITDA at €42-47m vs €29m in 2019 reported figures.

Solid medium-term growth prospects with mid-teens EBIT CAGR – Looking further out, Thrace looks well positioned to successfully navigate through the precarious backdrop, leveraging on cost efficiencies and volume growth thanks to its strong market positioning and growth investments. As such, we calculate 2024-27e EBIT CAGR at 15%, on >5% revenue CAGR, with the respective margin rising towards 9%, almost double the 5% in the pre-covid era.

Balance sheet optionality; investment plans intact – The strong cash pile-up during 2020-21, boosted by COVID-related demand, has helped Thrace further bolster its financial position. Despite the challenges faced, the group has maintained its healthy balance sheet (2023e net debt/EBITDA c0.6x) while endorsing investments (with focus on sustainable development) and rewarding shareholders. On the latter, Thrace has paid c€11m (€0.26/share) in dividends in 2023, while also announcing an interim dividend of €0.07/share (ex-date 30-Nov). With FCF conversion at c50% post 2024, we believe Thrace will drive shareholder value in sync with profitability growth.

Valuation – We recalibrate our estimates and come up with a valuation range between €313m and €426m. Our baseline points to a 12month value of €8.2/share (from €8.5 previously), indicating significant upside to the current price. We reckon current levels mirror a pessimistic setup, with immaterial profitability growth even as demand bounces back, which is inconsistent with the group's solid track record.

Estimates					
€ mn	2021 *	2022 *	2023e	2024e	2025e
Revenues	428.4	394.4	366.2	374.8	391.5
EBITDA	103.8	48.3	42.3	46.6	51.8
EBIT	83.9	27.4	19.9	24.0	29.0
Net profit	65.4	25.8	14.1	17.3	21.5
EPS	1.50	0.59	0.32	0.39	0.49
DPS	0.27	0.26	0.24	0.26	0.31

Valuation					
	2021 *	2022 *	2023e	2024e	2025e
P/E	4.1x	7.7x	12.5x	10.1x	8.2x
Adj. EV/EBITDA	2.4x	4.3x	4.5x	4.0x	3.4x
EBIT/Interest Expense	22.5x	6.2x	5.7x	7.4x	11.1x
Dividend Yield	4.5%	5.8%	5.9%	6.6%	7.7%
ROE	31.1%	10.1%	5.3%	6.4%	7.7%

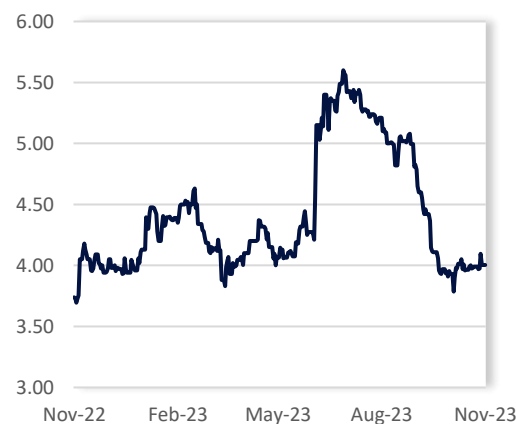
Source: Eurobank Equities Research.

Market Cap (€ mn) €175.2
Closing Price (03/11) €4.005

Stock Data

Reuters RIC	THRr.AT
Bloomberg Code	PLAT GA
52 Week High (adj.)	€5.68
52 Week Low (adj.)	€3.65
Abs. performance (1m)	1.9%
Abs. performance (YTD)	1.1%
Number of shares	43.7mn
Avg Trading Volume (qrt)	€65k
Est. 3yr EPS CAGR *	-5.9%
Free Float	34%

Thrace Plastics Share Price



Analyst

Natalia Svyriadi
Research Analyst
☎: +30 210 37 20 257
✉: nsvyriadi@eurobankequities.gr

Head of Research
☎: +30 210 37 20 259

Sales / Trading
☎: +30 210 37 20 117 / 168 / 110

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See Appendix for Analyst Certification and important disclosures.

** 2020-22 numbers include significant temporary boost from PPE products (of €23m, €52m and €5m in profitability, respectively)*

Contents

Investment case.....	3
Share price performance and valuation	4
DCF-based valuation returns a value ranging between c€310-425m	6
Trimming estimates given challenging backdrop	7
Solid cash flow generation and balance sheet optionality sustained	10
ESG Review in a glance	11
1. Environmental and Social	11
2. Corporate governance.....	12
H1'23 results overview	15
Group Financial Statements.....	16

Investment case

Well-balanced business and strong product portfolio remain key to the thesis

Thrace Plastics' diverse portfolio of products remains key to the thesis, with the company serving sectors with both cyclical and secular growth drivers. The precarious backdrop in the European industrial sector, and especially low demand in the big economies, has hampered production, and thus volumes, putting downward pressure on prices. Against this background, the group's well-balanced broad exposure to construction, agriculture, infrastructure, medical, furniture & bedding, rigid packaging and flexible packaging, aided further by geographical diversification, remain important through the current environment.

H1'23: soft trends amid tough demand conditions...

As evidence of the situation described above, H1'23 trends were characterized by both declining volumes and a drop in prices (caused by raw materials price fall), thus leading to a decline in revenues (-15.3% yoy). We caveat though that 2022 figures featured a small part of extraordinary health-related products no longer seen in 2023, fact which distorts the yoy comparison rendering the optics worse than the underlying performance. H1'23 EBITDA shaped at €24.1m, down by 5% vs H1'22 underlying figures (namely ex profit from PPE products of c€5m). When looking into reported EBITDA this was down by 19.7%, indicative of the substantial decline in Technical Fabrics EBITDA (-30% yoy, -1.8pps in margin) which was the main beneficiary of PPE related profits, while packaging unit EBITDA grew 6.6%, with a 2pps yoy improvement in the respective margin. Group underlying PBT (excl. one-off gains and €4.7m profit from masks in H1'22) dropped to €12.2m in H1'23, translating to a €3.2m yoy decline, quite a respectable performance given the tough environment faced.

...prolonged further, thus weighing on our forecasts

In view of the prolonged demand challenges, we moderately trim our near-term forecasts. We reduce our volume assumptions by 5-6% in 2023-24, driven by the soft consumption indications and a tight economic outlook ahead. This is bolstered by sustained soft pricing (lower inventory turnover and fixed costs absorption). As a result, we forecast a revenue drop to the tune of 7% in 2023 (€366m), bouncing slightly back in 2024 (+2% yoy, €375m). In the meantime, as we filter through cost rationalization and decelerating input costs, we end up with a commendable -1.5% yoy drop in underlying EBITDA (namely ex the estimated contribution from PPE in 2022) in 2023 (€42m), with the respective margin at 11.6%. We envisage a bounce back in 2024e to c€47m (12.4% margin) driven by operating leverage. Despite the drop in reported EBITDA in 2023e, underlying profitability will still be materially higher than 2019 levels (when EBITDA was €29m).

Solid outlook ahead; +15% 2024-27e EBIT CAGR

Looking ahead, we believe the payback in demand will drive a volume recovery next year, though we maintain a conservative pricing scenario, thus contemplating a 5.4% revenue CAGR in 2024-27e. This is supported by mgt's focus on traditional sectors (further utilization of existing assets), better product mix and growth investments. We calculate 2024-27e EBIT CAGR at 15%, with the respective margin rising towards c9%, almost double the 5% in the pre-covid era, 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.

Balance sheet optionality

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 €9.3m 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 enjoys a healthy financial position allowing it to comfortably finance its investment plans, while also continuing to reward shareholders. Indicatively, Thrace group has paid c€11m (€0.26/share) in dividends in the current year, and also announced an interim dividend of €0.07/share (ex-dividend 30-Nov, payable 6-Dec 2023). With FCF conversion near 50% post 2024, it is reasonable to expect the group will continue driving sustainable shareholder value in the future in sync with growth in profitability.

Compelling valuation

Thrace shed >40% in 2022 in view of the challenging environment (inflationary pressures, supply chain deadlock, geopolitical tensions, tame demand), reversing >200% gains in the aftermath of the pandemic. The shares are little-changed year-to-date. Our DCF-based valuation returns a 12m fair value of €8.2/share, slightly lower than our previous model owing to modestly lower near-term estimates. In spite of short-term difficulties, the medium-term

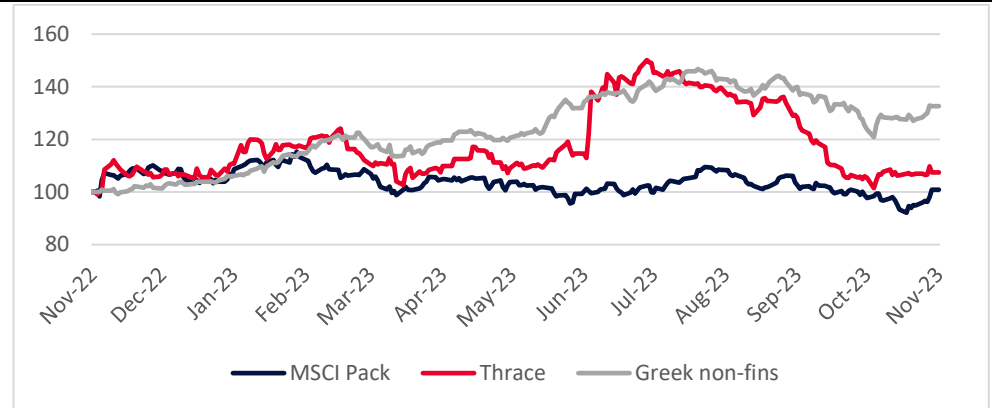
outlook remains positive and certainly better than the current price discounts. In fact, on our estimates the current share price incorporates a sustained EBIT >50% lower than our forecasts in the long term, indicating a rather pessimistic set-up in our view, as it effectively implies value destruction 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.

Share price performance and valuation

Thrace group shares are flattish YtD (+1%) in 2023, following a lackluster 2022 performance (-43%) and a reversal of >200% gains in the aftermath of the pandemic. This reflects a number of factors, such as: 1) the significant raw material, energy & transport costs hike in early 2022 forming a high base effect in 2023, 2) the immaterial contribution of high margin PPE products in 2023, a well telegraphed and anticipated development though, and: 3) the slump in demand which brought about low volumes and thus a drop in prices. As can be seen below, Thrace is little-changed year-to-date as the outperformance in Q2 was followed by a period of pressure for the shares since the summer. Overall, Thrace has performed in sync with its foreign peers while lagging the substantial returns registered by other Greek non-financials. That said, it remains markedly above its pre-COVID levels.

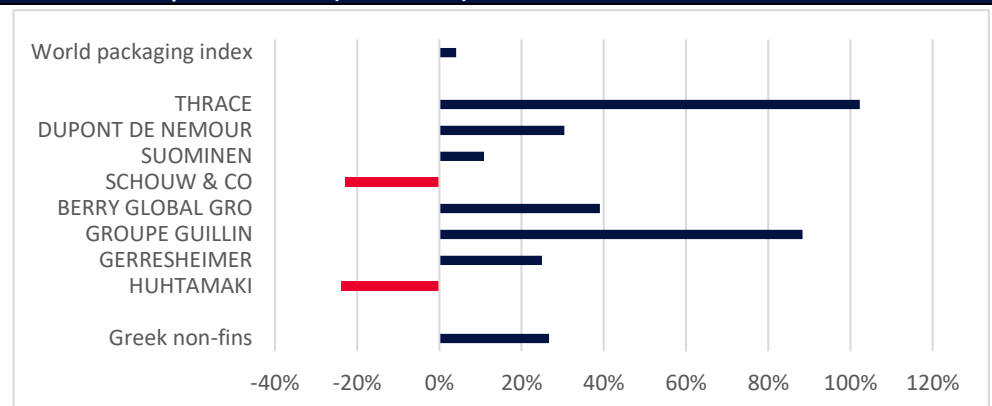
Stock performance in sync with Packaging companies in the last year, following a retracement lower since the summer

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



Source: Eurobank Equities Research, Bloomberg.

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

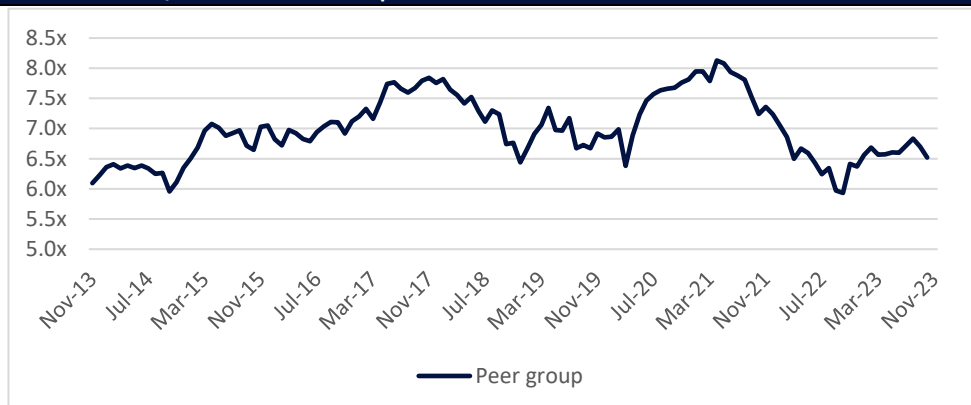


Source: Eurobank Equities Research, Bloomberg.

Remains at >35% 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 still lies above their current valuation (6.5x). In comparison, Thrace trades at a 12m fwd EV/EBITDA of <4.5x, indicating a massive discount vs the peer group.

12m forward EV/EBITDA valuation of peers



Source: Eurobank Equities Research, Bloomberg.

Looking at a broad set of comparable metrics, Thrace Plastics stands out as offering a compelling combination of attractive valuation, strong balance sheet, similar margins vs peers and a superior yield.

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)	175	12.5x	10.1x	4.5x	4.0x	6%	7%	0.6x
HUHTAMAKI OYJ	3,545	14.9x	13.3x	8.7x	7.9x	3%	3%	2.4x
GERRESHEIMER AG	3,100	19.1x	16.5x	9.9x	8.5x	1%	1%	2.4x
GROUPE GUILLIN	518	7.6x	8.1x	4.7x	4.7x	3%	3%	0.4x
BERRY GLOBAL GRO	6,468	8.1x	7.6x	7.6x	7.3x	1%	1%	3.8x
Median Packaging		11.5x	10.7x	8.1x	7.6x	2%	2%	2.4x
SCHOUW & CO	1,536	10.8x	9.2x	7.3x	6.8x	4%	4%	2.3x
SUOMINEN OYJ	154	n.a.	17.1x	12.8x	6.2x	3%	5%	3.0x
DUPONT DE NEMOUR	27,904	20.2x	17.6x	12.4x	11.5x	2%	2%	1.8x
Median Technical Fabrics		15.5x	17.1x	12.4x	6.8x	3%	4%	2.3x

Source: Eurobank Equities Research, Bloomberg.

12mth PT set at €8.2/share, reflecting the near term challenges

DCF-based valuation returns a value ranging between c€310-425m

In our valuation methodology we roll over to 2024 numbers, with our DCF-generating a c€360m 12-month forward fair market cap forecast. This translates to a base value of €8.2 per share (vs €8.5 previously), justified by the slight near-term profitability lag, effectively placing the stock at c8x 12mth forward EV/EBITDA (near the World packaging companies multiple).

We value the company with a DCF-based valuation predicated on the following assumptions:

- Sales CAGR of c5% over 2024-2028e, following declining trends in the short term 2022-24e period;
- Reported EBIT CAGR of 14% over the midterm, with a 2.3pps margin expansion driven by strong operating leverage.
- A normalized terminal FCF near €37m and a sustainable growth rate of 0.5%, while assuming a reinvestment rate in the high single digits, which looks reasonable given the nature of the business.
- The implied FCF conversion (FCF/EBITDA) in the medium term (post 2024) stands >48%, a level we consider feasible and consistent with a low-to-mid single digit growth rate incorporated in our numbers post 2026.
- We maintain our WACC assumption at 9.3% mainly reflecting the tight monetary policy setting and sustained tough industry conditions.

A summary of our baseline DCF can be seen below:

Thrace Plastics DCF							
	2024e	2025e	2026e	2027e	2028e	...	2034e
NOPAT	18.7	22.6	25.8	28.7	31.2		
Depreciation	22.6	22.8	23.1	23.3	23.5		
Capex	(25.2)	(20.2)	(20.2)	(19.2)	(19.4)		
Working Capital	1.3	(0.3)	(1.2)	(3.6)	(3.0)		
Enterprise cash flow	17.5	25.0	27.5	29.1	32.3	...	36.9
PV	17.5	22.8	23.1	22.3	22.7	...	15.2
PV of terminal value	174.0						
Enterprise Value – end 2024e	390.2						
Net (debt) incl. leases / other claims	(14.5)						
Expected dividend	(10.2)						
Equity value (ex-div)	365.5						
no. of shares	43.7						
1-year fair value (ex-div)	359.9						
12-month indicative value per share	8.2 €						

Source: Eurobank Equities Research

A basic sensitivity on a combination of WACC and terminal growth rates is presented at the table below. As we can see, flexing our WACC and perpetuity growth inputs by 1% and 0.5% respectively yields a fair value range between €313m and €426m.

DCF Sensitivity		Perpetuity growth				
WACC		-0.5%	0.0%	0.5%	1.0%	1.5%
		8.3%	384	396	410	426
8.8%	361	372	383	397	412	
9.3%	341	350	360	371	384	
9.8%	322	330	339	349	359	
10.3%	306	313	320	328	338	

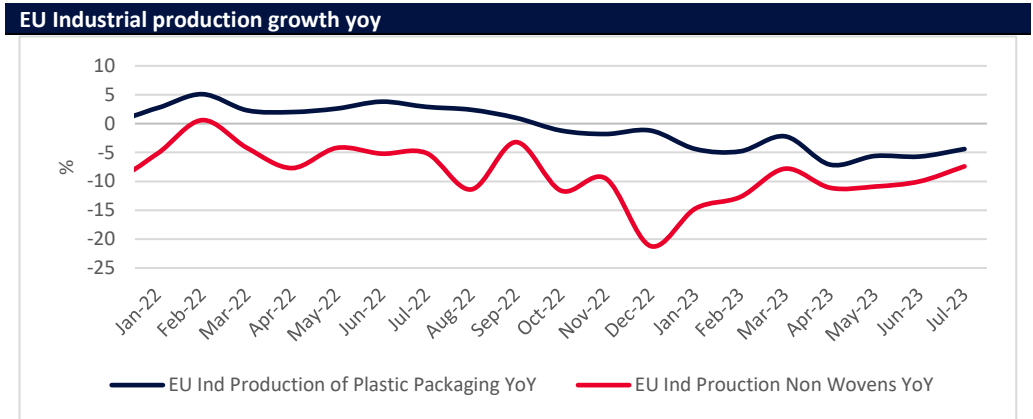
Source: Eurobank Equities Research

Trimming estimates given challenging backdrop

Prolonged soft demand trends across the industry weighing in the near-term

We revisit our forecasts to reflect the sustained demand challenges for longer than anticipated. Industrial production growth across the group's main products categories (plastic packaging products, technical non-woven fabrics etc.) remains negative yoy across EU, with market dynamics pointing to a slow recovery (post Q2'24), thus hampering the company's pricing power.

We showcase below the relevant industrial production growth trends intra EU, with forecasts indicating positive growth to return post Q2'24.

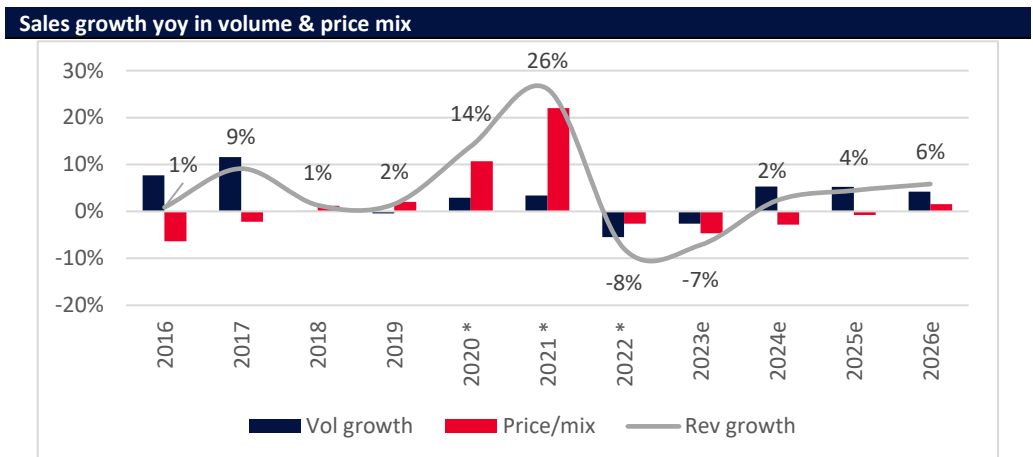


Source: Eurobank Equities Research, Bloomberg

We trim our revenues by c6%...

Against this background, we have trimmed our top line forecasts by some 6% in both 2023-24e, mainly volume led, while we assume a recovery from H2'24. In specific, we have penciled in a c3% drop in volumes, topped by a c5% decline in prices in 2023e, pointing to an improving H2 picture (vs H1'23 -5.5% volume/-9.7% price mix), as Thrace starts to cycle better comps vs the respective period last year when the first signs of fading demand appeared. In 2024e we model a 5% volume recovery, amid sustained lower pricing power (-3% yoy). As a result, we forecast revenues at €366m in the current year (implying some €186m in H2'23, +2% yoy), rising to €375m in 2024e.

We showcase below the volume/price mix growth components of sales.



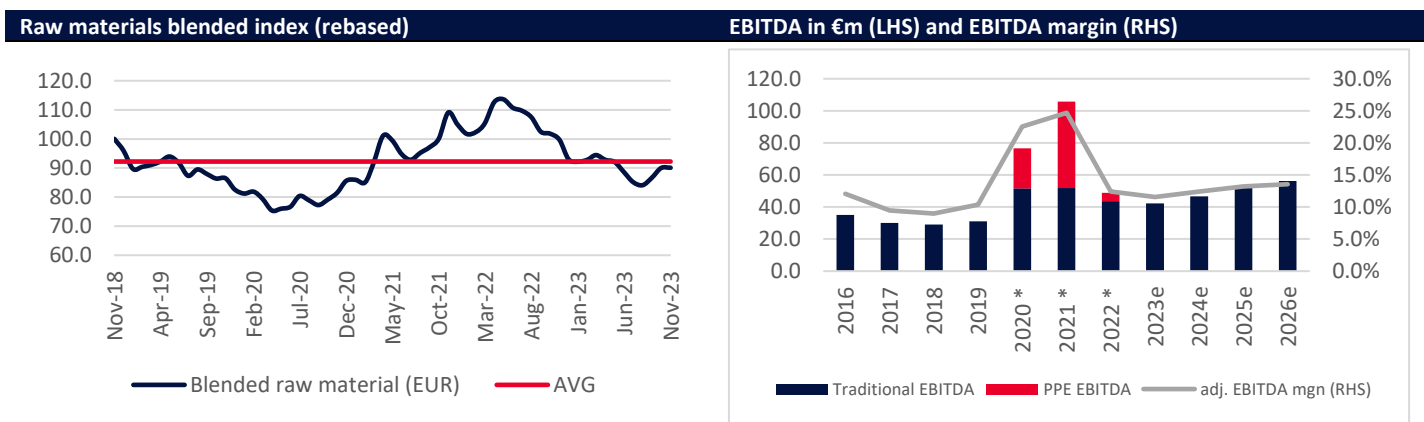
Source: Company, Eurobank Equities Research

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

... and accordingly, costs, thus landing with a 2023e 11.6% EBITDA margin (-70bps yoy), recovering >12% by 2024e

Importantly the company has shown a resilient COGS performance in H1'23 (gross margin +40bps yoy), while broadly maintaining operating costs under control. As such, we fine tune accordingly our cost assumptions, maintaining a -4% annual COGS/case assumption in 2023-24e (following the >30% cumulative rise in the past two years) with opex/sales just above 15% (synced with pre-covid average levels) in the same period. Consequently, our EBITDA forecasts are set at €42.3m and €46.6m in 2023 and 2024, respectively, with the EBITDA margin down to 11.6% in 2023 (-0.7pps yoy) and recovering to 12.4% in 2024e. It is worth noting that the EBITDA margin has cemented above the 2019 continuing ops level of 10.3% (pre-PPE products boost), testament to the cost rationalization undergone and the changes in the product mix. We now estimate EBT from continuing operations at €18.6m in 2023 and €22.8m in 2024, vs underlying EBT of €22.2m in 2022.

In the chart below we showcase our blended input costs index, which has bounced back near 5-year average levels, following a deflationary period (Mar-Aug 2023). We also display group EBITDA and margin evolution, with a distinction relating to non-traditional Covid-related products' EBITDA. The chart affirms that Thrace's profitability and margin levels have solidified above the respective pre-covid levels.



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

c9% EBITDA CAGR in the mid-term, driven by operating leverage

Looking into the mid-term we believe volumes will revive once demand picks up, underpinned by the ongoing business sustainability and growth investments. We forecast 3-year volume CAGR >4% post 2023, filtering through to >5% revenue CAGR in the same period, with average pricing sustained near €3.4 blended price per unit. In the meantime, we believe that as Thrace continues streamlining operations and investing in the business (and input costs and inventory pile-up normalize), operating leverage will be reflected in an enhanced gross margin and operating costs, thus envisaging a healthy c9% EBITDA CAGR in the 2024-27 period.

All the above coalesce to: 1) lower group revenues to the tune of c5-6% in the 2023-25e period, mainly driven by a -7 to -8% sales downgrade in our technical fabrics forecasts, and 2) some 5-9% downward revision in EBITDA, entirely owing to lower margins in technical fabrics.

Thrace Group New vs. Old forecasts			
	2023e	2024e	2025e
New (EUR mn)			
Sales	366	375	392
EBITDA	42	47	52
PBT	19	23	28
Net Income	14	17	21
Old (EUR mn)			
Sales	389	397	412
EBITDA	47	50	55
PBT	23	26	30
Net Income	17	19	23
new vs old (%)			
Sales	-6%	-6%	-5%
EBITDA	-9%	-6%	-5%
PBT	-18%	-11%	-7%
Net Income	-19%	-11%	-7%

Source: Company, Eurobank Equities Research

Divisional forecasts point to low-to-mid single digit 3-year EBITDA CAGR post 2023 in the pack division, and low teens in technical fabrics

Looking closer at our divisional forecasts we have lowered volume growth, now eyeing a 4% drop in the Technical Fabrics (TF) unit and flat volumes in the Packaging Unit (PU), with our price per unit assumption fairly unchanged at c€3.4 (-6% yoy) in TF and also c€3.4 (-3% yoy) in PU. Regarding EBITDA margins, we fine tune our divisional assumptions reflecting the pressure witnessed in TF H1'23 results (EBITDA margin -1.8pps) and the better than anticipated picture in PU (H1'23 EBITDA margin +2.1pps). As a result, we trim TF EBITDA margin to 9.3% in 2023e (-1.5pps yoy), while we raise our PU margin to 15% (+0.8pps yoy). Looking ahead we revert to a 11-13% margin in technical fabrics and c14-15% sustained margin in the packaging unit.

The table below summarizes our key divisional estimates and group short P&L. We also make reference to PPE products in the 2020-22 period.

Short P&L							
	2020*	2021*	2022 *	2023e	2024e	2025e	2026e
Technical Fabrics (EUR m)							
TF Vol sold (m tons)	79.6	80.7	76.1	73.1	76.6	80.4	83.7
growth	3%	1%	-6%	-4%	5%	5%	4%
TF Pricing per unit (EUR)	3.1	3.9	3.6	3.4	3.3	3.3	3.3
growth	12%	29%	-9%	-6%	-3%	-2%	2%
TF Sales	243.1	318.9	274.5	248.2	252.8	261.4	277.3
growth	15%	31%	-14%	-10%	2%	3%	6%
TF EBITDA	50.5	86.1	29.7	23.1	27.1	31.6	35.5
margin	20.8%	27.0%	10.8%	9.3%	10.7%	12.1%	12.8%
TF PBT	37.7	72.4	20.1	6.5	9.7	15.0	19.6
<i>o/w PBT attributed to PPE</i>	19.5	49.9	3.0				
<i>o/w underlying PBT</i>	18.2	22.5	17.1	6.5	9.7	15.0	19.6
Packaging Unit (EUR m)							
PU Vol sold (m tons)	36.3	39.4	38.5	38.7	40.9	42.9	44.6
growth	2%	8%	-2%	0%	5%	5%	4%
PU Pricing per unit (EUR)	2.9	3.0	3.44	3.35	3.28	3.3	3.4
growth	9%	5%	13%	-3%	-2%	1%	1%
PU Sales	105.7	120.0	132.7	129.7	134.0	142.8	150.8
growth	11%	14%	11%	-2%	3%	7%	6%
PU EBITDA	22.5	18.3	18.9	19.5	19.7	20.4	20.9
margin	21.3%	15.2%	14.2%	15.0%	14.7%	14.3%	13.8%
PU PBT	15.3	12.1	12.2	12.3	13.2	13.4	13.4
<i>o/w PBT attributed to PPE</i>	3.2	1.9	2.3				
<i>o/w underlying PBT</i>	12.1	10.2	9.9	12.3	13.2	13.4	13.4
GROUP (EUR m)							
Vol sold (m tons)	111.8	115.5	109.2	106.3	112.0	117.8	122.8
growth	3%	3%	-5%	-3%	5%	5%	4%
Pricing per unit (EUR)	3.04	3.71	3.61	3.44	3.35	3.32	3.38
growth	11%	22%	-2.6%	-4.7%	-2.8%	-0.7%	1.6%
Group Sales	339.7	428.4	394.4	366.2	374.8	391.5	414.3
Sales growth	14%	26%	-8%	-7%	2%	4%	6%
Group Gross Profit	106.0	140.1	84.3	76.1	81.5	87.7	94.6
margin	31.2%	32.7%	21.4%	20.8%	21.7%	22.4%	22.8%
Group EBITDA	72.5	103.8	48.3	42.3	46.6	51.8	56.2
margin	21.3%	24.2%	12.2%	11.6%	12.4%	13.2%	13.6%
Group PBT	52.1	83.9	32.1	18.6	22.8	28.2	32.8
<i>o/w PBT attributed to PPE</i>	22.7	51.8	5.3				
<i>o/w one-offs</i>	0.0	0.0	4.6	0.0	0.0	0.0	0.0
<i>o/w underlying PBT</i>	29.4	32.1	22.2	18.6	22.8	28.2	32.8
Group Net Income	40.7	65.4	25.8	14.1	17.3	21.5	25.1
EPS (EUR)	0.93	1.50	0.59	0.32	0.39	0.49	0.57
DPS (EUR)	0.22	0.27	0.26	0.24	0.26	0.31	0.34

Source: The Company, Eurobank Equities Research

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

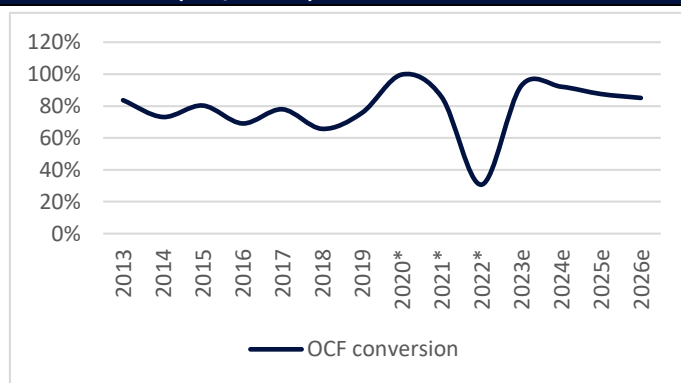
Cash flows underpinned by operational performance, supporting value-enhancing investments

Solid cash flow generation and balance sheet optionality sustained

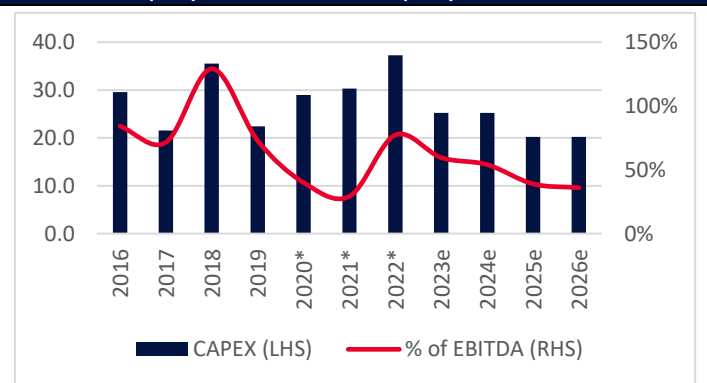
The group's cash flow generation ability remains strong, with OCF conversion having oscillated near 70-80% in the past 10 years (except for 2022 which was eroded by the high working capital needs). Looking ahead, we envisage OCF conversion >80% as a result of strong operational performance and efficient working capital management.

Against this background, Thrace is continuing to invest in its business, looking into value and growth opportunities, with some €30m capex identified for the near term. 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. As a reminder, 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). Looking ahead, we make an assumption of €20-25m annual capex, of which some €5-6m are headed into efficient business continuation and the remaining into new investments.

Cash conversion (OCF/EBITDA)



CAPEX in €m (LHS) and as % of EBITDA (RHS)



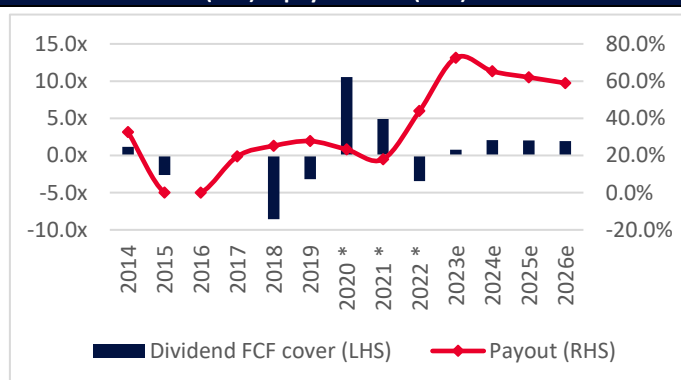
Source: Company, Eurobank Equities Research

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

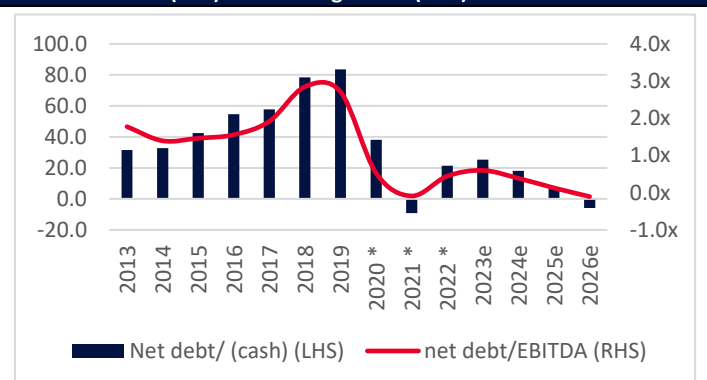
Healthy balance sheet sustained, promoting optionality

We stress that the group's healthy financial position allows for balance sheet optionality, with the group likely to build on its track record of balanced expansionary/capital allocation strategy. Indicatively Thrace has invested c€100m in capex in 2020-22 period and has paid out >€30m to shareholders since 2020, while it recently announced an interim 2023 dividend of €3m (€0.07/share gross). Of note is that the covid period (2020-21) cash pile-up helped Thrace diminish its debt load, with net debt/EBITDA set to settle at c0.6x in 2023 on our estimates, much lower than historically (1-2x), despite the capital intensity inherent in the industry. On our numbers, the pre-tax ROIC over 2023-26e will shape near 7-11%, in sync with pre-covid levels (average 9%).

Dividend FCF cover (LHS) & payout ratio (RHS)



Net debt in €m (LHS) and leverage ratio (RHS)



Source: Company, Eurobank Equities Research

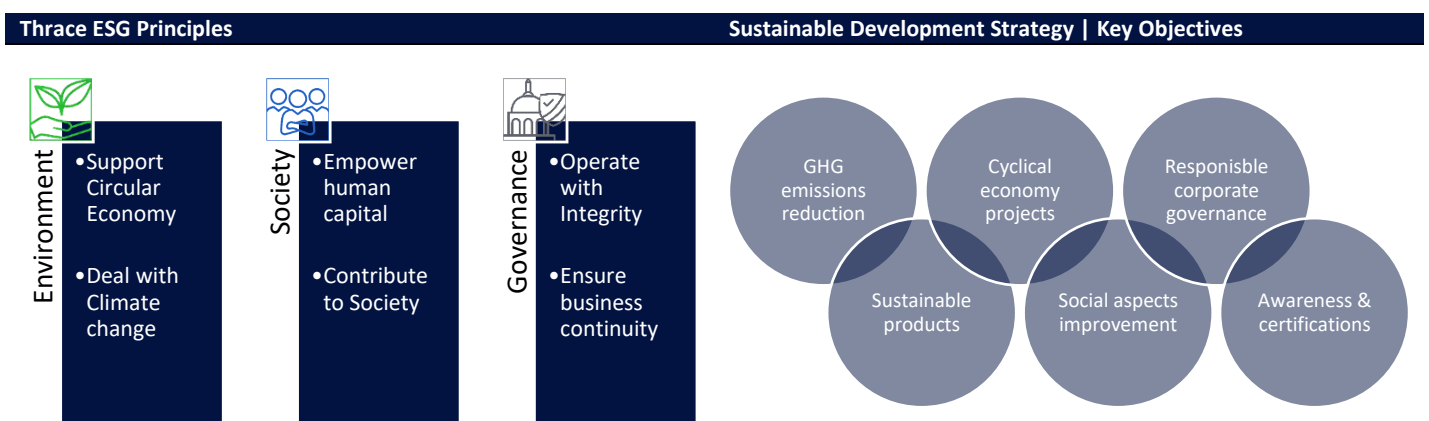
* 2020-22 numbers include significant temporary boost from PPE products

Sustainable development key to Thrace's values, with high rankings achieved

ESG Review in a glance

Thrace Plastics is a group aligned with global sustainable development initiatives and awarded 'Platinum' 1st ESG ranking in Forbes Top 100 ESG transparency index. Over the years Thrace group has evolved its sustainability framework, certifying the recycled content in its products, measuring its Greenhouse gas emissions and validating its targets. In the second year, Thrace received "B" distinction in CDP assessment for its performance regarding climate change (above global average of "C"). Thrace Plastics has an established 'Sustainability Committee' monitoring the implementation of the Sustainable Development Policy it has set, while at the same time the Audit Committee is responsible for regulatory compliance with Corporate Governance rules.

Below we briefly set out Thrace Plastic's approach regarding environmental sustainability issues, ethical responsibilities vis-à-vis employees and suppliers, as well as compliance with corporate governance best practices. In a nutshell Thrace has identified the following ESG values upon which it has shaped its **Sustainable Development Strategy Framework**.



Source: Company, Eurobank Equities Research

5-yr sustainability plan pillars

1. Environmental and Social

Thrace Plastics is genuinely committed to reducing energy consumption, minimizing waste and maximizing reprocessing and recycling opportunities. To that end, the group has set three key pillars, namely 1) reduction of greenhouse gas (GHG) emissions in all processes, 2) improving the environmental impact of products and 3) implementing circular economy projects through its 'in-the loop' platform. **Looking ahead, Thrace aims to achieve: 1) a 30% rise in recycled raw materials use by 2025, and 2) 15% energy reduction in volumes produced by 2025, while 3) also reducing its % of CO2 emissions (with the commitment to establish a scientific carbon footprint reduction target through SBTi).**

On the social side, Thrace is focused on improving all social aspects affecting stakeholders (another key strategic pillar) and as such it has established a cooperation framework with suppliers based on environmental and social criteria. It promotes a culture of equal opportunities and is continuously developing and training employees while ensuring their health and safety is safeguarded. It is also actively supporting local communities through multiple actions and donations, while Thrace has established the Social Center 'Stavros Chalioris' for the local community of Xanthi, actively engaged in community support programs.

We outline in the table below some key Environmental and Social KPIs, with regards to:

1. Raw materials & Waste mgt

- a. Raw materials used: Thrace group has managed to reduce raw materials substantially (weight down by 3.6% yoy in 2022), and
- b. Recycled raw materials: increased the recycled raw materials used (weight up by 17.2% yoy) to 13,407tons.
- c. Waste management: Thrace has reduced overall waste, oriented towards the recycling of raw materials, with more than 63% of total recycled and 5% used in

energy recovery. The group has reduced the percentage of waste that ends up to landfills to just 32% disposed in 2022.

2. Energy usage & CO2 emissions

- Total energy consumption: the group has contained its energy consumption by 6.5% yoy in 2022 (198K MWh) through energy efficiency projects.
- Renewable energy: Solar plants and geothermal energy contributed 6.23% of total energy in 2022 (solar plants of 6.7MW, with expansion plans in place).
- GHG emissions were down by 3% yoy in 2022.

3. Employees

- The percentage of female employees shaped higher at 24% in 2022 (from c20% in 2017), although only 16% in managerial positions. The basic wage ratio index between women/men has remained near 78%.
- The group has a fair remuneration and Equal opportunities policy, with the gender pay gap at 27% in 2022.
- Thrace is also implementing an annual employee training program.

4. Social responsibility

- Thrace group is committed to direct and indirect value distribution to the local communities by supporting ActionAid programs, making individual donations and supporting social solidarity programs.
- It has the Social Center “Stavros Halioris” in Xanthi, Greece, which aims to contribute through educational, cultural and social activities

Environmental and Social KPIs		
Environmental	2019	2022
Total Raw materials weight (K tonnes)	104	99.5
Recycled raw materials (K tonnes)	6.3	13.4
Recycled raw materials (% in total raw materials)	6%	12%
→ 2025 Target to raise recycled raw materials by 30%		
Waste management of Non-Hazardous Waste (K tn)	5.4	5.7
o/w in recycling & energy recovery	66%	68%
Total Energy Consumption (K MWh)	193.9	197.9
→ 2025 Target to reduce by 15% per kg of production volumes		
o/w Photovoltaic net metering operation (MW)		6.7
Total Energy Consumption renewable sources (% of total)	3.4%	6.2%
Energy Intensity indicator (Energy/production Volume)		1.82
Energy Intensity per sales (MWh/€mn)	588	502
Total GHG emissions (K tonnes) scope 1,2&3		352.5
yoy		-3.1%
Social	2019	2022
% of female employees	23%	24%
% of females in management	22%	16%
% of females in BoD	-	18%
Average training hours per employee	2.7	5.0
Staff Mobility (voluntary mobility)	16%	11%
Stavros Halioris Social Center expenditures (in mn)	€0.273	€0.413
Source: Company, Eurobank Equities Research, Bloomberg.		

2. Corporate governance

Corporate governance best practices followed

Thrace corporate governance policy is formed around two key pillars, namely 1) ensuring responsible corporate governance and 2) awareness & certification.

To assess compliance with best practices we utilize a custom-made framework, formed upon the basis of the Hellenic Capital Governance Code (June 2021), which is focused on key metrics we believe are closely watched by investors. These include board structure and independence, executive compensation, monitoring through independent committees and alignment of incentives. Note that we have conducted a similar analysis for all stocks in our universe, so as to gauge Thrace Plastic’s relative positioning vis-à-vis the other companies under our coverage.

The KPIs used to measure performance in each broad category related to corporate governance are the following:

1. **BoD structure**
 - a. BoD size: Best practice suggests that the BoD should be made up of 7-15 members, with Thrace's **BoD comprised of 11 members**.
 - b. Chairman/CEO separation: We consider best practice the separation of the two roles, in line with the corporate governance framework in the vast majority of OECD jurisdictions. **Note that Thrace separated the two roles (Chairman/CEO) in 2021**.
 - c. Term of BoD members (period of election): we consider best practice cases where BoD members are submitted for election every 4 years or less (in sync with the Code), **with Thrace holding a 5-year Board duration period, one of the few deviations**.
 - d. Average tenure of BoD members: we score more highly companies where directors serve on the board for an average period of 3 years or less. Although shorter average tenure may not be directly linked to operational performance, it does reinforce internal discipline and control while also minimizing the likelihood of director misconduct. **Thrace Group's average tenure of BoD members is >4 years, with most members replaced in the past few years**.
2. **BoD Independence & diversity**
 - a. % of non-executive members in the BoD: A board of directors in which non-executive members are the majority is the best practice principle we assess, with **Thrace's non-executive members at 82% of total (9 out of 11)**.
 - b. % of independent directors in the BoD: The Code's recommendation is for independent directors to account for at least 1/3 of the members of the board. We consider best-practice a >30% representation of independent directors. **We emphasize Thrace's 45% representation of independent members (5 out of 11)**.
 - c. Independent vice-chairman & BoD Diversity: In cases where the roles of the CEO/Chairman are not separated, we give credit to companies having an independent vice-Chairman who safeguards the independence of the board. **Thrace has separated CEO/Chairman roles and an independent non-executive Vice Chairman, while it just meets the criteria for adequate gender representation with 2 female BoD members out of 11**.
3. **System of internal controls**
 - a. Establishment of remuneration committee: We believe the existence of a remuneration committee is a good way of introducing a mechanism for normative controls on management's pay. **We applaud not only the existence of a remuneration committee, but also the significant disclosure with regards to management compensation**.
 - b. Independence of Audit Committee: The Greek Law prescribes that a listed company must have an audit committee. We check for compliance with the Code's recommendation that audit committees be composed in their majority of independent non-board members, which is the case of Thrace Group (**100% independent and majority non-BoD Audit Committee members**).
 - c. Independence of Remuneration Committee: Best practice suggests that the majority of the remuneration committee members should be independent. This inhibits entrenched management from securing excessive remuneration packages. **Thrace features an Independent Chair and majority (67%) non-independent members**.
4. **Alignment of incentives**
 - a. Granularity on executive remuneration: alignment of the various stakeholders' incentives is facilitated through a good level of disclosure regarding executive pay, e.g. how remuneration of executive directors is determined, balance between fixed and variable components, KPIs for executive bonus, other contractual arrangements (pensions, stock options, long-term incentive schemes etc.). As mentioned above, **Thrace enjoys significant disclosure with regard to management compensation absolute amounts, variable vs fixed compensation and bonus-based KPIs**.
5. **Audit firm quality**
 - a. Big-6: Our exercise rewards listed entities audited by Big-6 accounting firms and **Thrace features a Big-6 auditor**.

Corporate Governance KPIs		
Board Structure	2019	2022
Board Size	10	11
CEO/Chairman separation?	No	Yes
Board duration	5	5
Tenure of the CEO	< 1 year (changed in 2020)	3
Average tenure of BoD	< 4 years	4
# Board Meetings per year	23	27
Board Independence - diversity		
% of non-executive directors on the BoD	80%	82%
% of independent directors on the BoD	50%	45%
Vice-Chair independence?	No	Yes
Board diversity - female representation	-	18%
Internal Controls		
% of Audit Committee Members that are Independent	100%	100%
Audit committee Chair Independence	Yes	Yes
% of Independent Remuneration Committee Members	100%	67%
Remuneration committee Chair Independence	Yes	Yes
Nomination committee Chair Independence	Yes	Yes
Alignment of incentives		
Granularity on CEO max compensation	Detailed disclosure Yes, variable based on financial and qualitative targets	Detailed disclosure Yes, variable based on financial and qualitative targets
Criteria for CEO bonus		
Quality of auditor		
Big 6?	Yes	Yes
Source: Eurobank Equities Research.		

Thrace Plastics features in the top positions within our total Greek universe

Overall, relative to the rest of our universe, Thrace Plastics seems to be at the top range in terms of compliance with the aforementioned corporate governance performance indicators (with CCHBC being the top performer). **In fact, Thrace Plastics screens among the best within our entire coverage universe.** Bloomberg also assigns above average peers ESG score for the group.

Distinctions picture Thrace's unwavering dedication to sustainability

Thrace Group is highly committed to sustainable development. The company has achieved a "B" score in CDP assessment, climbing 2 ranks compared to 2021, testament of its solid commitment to sustainable development. In EcoVadis assessment Thrace achieved 5 silver distinctions for performance related to society and the environment. Importantly, Thrace was recognized in the 'Platinum' 1st ESG ranking' in Forbes Top 100 ESG transparency index in Greece. Lastly, Thrace is actively progressing its "In the loop platform", currently counting 130 collaborating members who are strengthening the transition towards a circular economy.



Source: The Company, Eurobank Equities Research

H1'23 results overview

High base effect and soft demand trends weighing on H1 performance, as expected

Thrace reported H1 results broadly as anticipated, weighed by low demand and a high cost-base as well as the unfavorable base effect vs last year (which included c€4.7m profit from non-traditional/PPE products). The soft performance was already baked in our forecasts, with actual EBITDA down 19.7% yoy (€24.1m). Looking ahead, mgt is guiding for Q3'23 EBITDA at last year levels, though it is cautioning that demand remains limited, with no recovery expected until year-end.

In detail, H1'23 group revenues were down 15.3% yoy to €180m, with volumes declining by 5.6% yoy, thus implying a price mix drop. On the cost side, cost inflation remained elevated, thus leading to group reported EBITDA of €24.1m (-19.7% yoy including PPE products last year, or €-5% adjusted) and a respective margin of 13.4% (-0.7pps yoy). Worth reminding that H1'22 included extraordinary mask related profit of c€4.7m at PBT level. Underlying PBT dropped 20% yoy to €12.2m (comparing to 15m in H1'22 ex PPE products). Net profit was in line with our estimate at €8.8m, -44.7% yoy.

Solid operational cash flow sustained

Cash flow wise, the group ended H1'23 with a net debt of €21.7m (vs €21.5m in 2022 year-end), owing to the solid operational performance, while continuing to invest in the company (some €10m in investments carried out in H1'23) and also paying out dividends (c€11m) in the period. Mgt underlined that investment plans are progressing on track.

Thrace Plastics H1'23 short overview			
EUR mn	H1'22	H1'23	yoy %
Sales	212.7	180.1	-15.3%
Gross Profit	48.0	41.5	-13.5%
Gross Margin	22.5%	23.0%	+0.5 pps
EBITDA reported	30.0	24.1	-19.7%
EBITDA Margin	14.1%	13.4%	-0.7 pps
EBT reported	20.1	12.2	-39.0%
of which PPE EBT	4.7	0.0	
of which underlying	15.4	12.2	-20.3%
EAT reported	15.9	8.8	-44.7%
EUR mn	FY'22	H1'23	
OCF	13.0	24.5	
Net Debt / (cash)	21.5	21.7	

Source: Company, Eurobank Equities Research

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

Per division, technical fabrics revenues shed 19% yoy and packaging revenues dropped by 7% yoy, on sustained low demand trend and as health-related products diminished further. The EBITDA drop was attributed to technical fabrics EBITDA (down 30% yoy as this benefited by PPE products in H1'22), with the respective margin shaping at 11.4% (-1.8pps yoy), while packaging EBITDA grew 6.6% on a yearly basis, with the respective margin at 16.6% (+2.1pps yoy).

Results breakdown by business unit			
	H1'22	H1'23	yoy %
Sales (EUR mn)			
Technical Fabrics	149.9	121.7	-18.8%
Packaging	69.9	64.9	-7.2%
Other/Intra-segment elim.	2.9	2.8	-3.8%
Group	212.7	180.1	-15.3%
EBITDA (EUR mn)			
Technical Fabrics	19.8	13.9	-30.0%
Packaging	10.1	10.8	6.6%
Group EBITDA	30.0	24.1	-19.7%
EBITDA margins			
Technical Fabrics margin	13.2%	11.4%	-1.8 pp
Packaging margin	14.4%	16.6%	2.1 pp
Group EBITDA margins	14.1%	13.4%	-0.7 pp

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	366.2	374.8	391.5
Gross Profit	140.1	84.3	76.1	81.5	87.7
EBITDA	103.8	48.3	42.3	46.6	51.8
<i>change</i>	43.2%	-53.5%	-12.3%	10.1%	11.2%
EBITDA margin	24.2%	12.2%	11.6%	12.4%	13.2%
EBIT	83.9	27.4	19.9	24.0	29.0
Financial income (expense)	-2.8	-2.4	-3.3	-3.0	-2.4
Exceptionals / other income	2.8	7.1	2.0	1.8	1.6
PBT	83.9	32.1	18.6	22.8	28.2
Income tax	-18.1	-5.8	-4.1	-5.0	-6.2
Non-controlling interest	-0.4	-0.5	-0.5	-0.5	-0.5
Net profit	65.4	25.8	14.1	17.3	21.5
EPS (EUR)	1.50	0.59	0.32	0.39	0.49
DPS (EUR)	0.27	0.26	0.24	0.26	0.31
Group Cash Flow Statement					
EBITDA	103.8	48.3	42.3	46.6	51.8
Change in Working Capital	-0.4	-26.4	1.0	1.3	-0.3
Net interest	-1.7	-1.8	-2.3	-2.0	-1.4
Tax	-17.5	-9.2	-4.1	-5.0	-6.2
Other	3.0	2.2	0.0	0.0	0.0
Operating Cash Flow	87.1	13.0	37.0	40.9	43.9
Capex	-30.3	-37.9	-25.2	-25.2	-20.2
Other investing	5.2	1.3	0.0	0.0	0.0
Net Investing Cash Flow	-25.1	-36.5	-25.2	-25.2	-20.2
Dividends	-11.6	-7.1	-14.3	-7.2	-11.3
Other (incl. payment of lease liab.)	-3.0	-0.1	-1.3	-1.2	-1.0
Net Debt (cash) (incl. leases)	-9.3	21.5	25.3	18.0	6.6
Free Cash Flow (adj.)	57.9	-24.4	10.9	14.8	22.9
Group Balance Sheet					
Tangible Assets	153.8	169.2	176.2	178.8	176.3
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	215.0	219.6	218.8
Inventories	71.8	76.4	74.5	75.5	78.1
Trade Receivables	64.5	64.8	63.1	64.0	66.2
Other receivables	14.6	14.2	14.0	14.3	14.9
Cash & Equivalents	63.2	39.6	37.3	38.6	40.7
Current Assets	214.3	195.0	189.0	192.4	199.9
Total Assets	405.2	404.8	404.0	412.0	418.6
Shareholder funds	248.5	263.7	263.5	273.8	284.2
Non-controlling interest	3.7	4.1	4.6	5.1	5.6
Total Equity	252.3	267.9	268.1	278.9	289.8
Long-term debt	33.6	31.6	31.0	30.4	29.8
Other long-term liabilities	12.5	12.7	12.7	12.8	12.8
Long Term Liabilities	46.1	44.3	43.8	43.2	42.7
Short-term debt	17.4	27.0	29.2	23.6	14.8
Trade Payables	55.4	40.6	39.6	42.6	46.7
Other current liabilities	34.0	25.0	23.2	23.8	24.8
Current Liabilities	106.8	92.6	92.1	89.9	86.2
Equity & Liabilities	405.2	404.8	404.0	412.0	418.6
Key Financial Ratios					
P/E	4.1x	7.7x	12.5x	10.1x	8.2x
P/BV	1.1x	0.7x	0.7x	0.6x	0.6x
Adj. EV/EBITDA	2.4x	4.3x	4.5x	4.0x	3.4x
EBIT/Interest expense	22.5x	6.2x	5.7x	7.4x	11.1x
Net Debt (cash)/EBITDA	-0.1x	0.4x	0.6x	0.4x	0.1x
Dividend Yield	4.5%	5.8%	5.9%	6.6%	7.7%
ROE	31.1%	10.1%	5.3%	6.4%	7.7%
Free Cash Flow yield	21.7%	-12.4%	6.2%	8.5%	13.1%
Payout Ratio	18.0%	63.9%	72.6%	65.3%	62.0%

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.

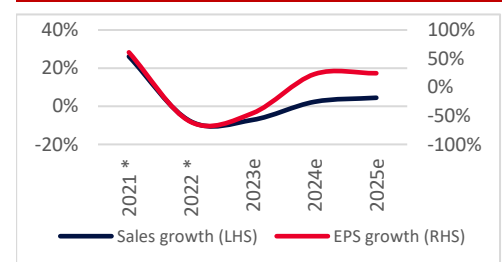
•**Working capital risk:** Raw material cost volatility could affect inventories' value.

•**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.

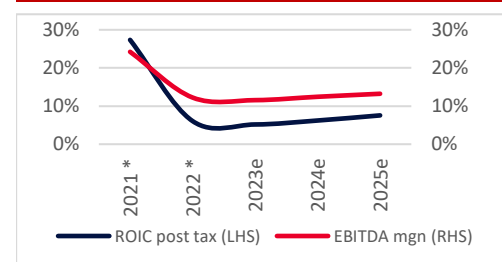
•**Price/mix:** stronger/weaker price/mix than assumed in our model would result in stronger/weaker sales growth.

•**Sensitivity:** We estimate that flexing our volume assumption by 1% would result in a c1-3% in 2023-24e group EBITDA. Similarly, were we to change our price/mix assumption by 1%, the impact on group EBITDA would be c6%. Finally, for a 1% increase in raw materials unit costs, our EBITDA forecast drops by c4% in 2023-24e.

Sales and EPS growth



Profitability and returns



* 2020-22 numbers include significant temporary boost from PPE products (of €23m, €52m and €5m in profitability, respectively)

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This report has been submitted to Thrace Plastics for review prior to its publication. Some changes have been made by Eurobank Equities S.A. to this report as a result of the review from Thrace Plastics.

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Analyst Certification:

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

Analyst Compensation:

The remuneration of Natalia Svyriadi is not tied to the investment banking services performed by Eurobank Equities Investment Firm S.A. or any of its related legal persons.

Natalia Svyriadi did not receive or purchase the shares of Thrace Plastics prior to a public offering of such shares.

Natalia Svyriadi does not have a significant financial interest in one or more of the financial instruments which are the subject of this report or a significant conflict of interest with respect to the subject companies mentioned in this report a) that are accessible or reasonably expected to be accessible to the persons involved in the preparation of this report or b) known to persons who, although not involved in the preparation of this report, had or could reasonably be expected to have access to this report prior to its dissemination to customers or the public.

Planned Frequency of Updates:

Eurobank Equities Investment Firm S.A. provides updates on Thrace Plastics based on the terms of the agreement between the two parties and at least but not limited to bi-annually after the publication of financial statements of Thrace Plastics.

12-month Rating History of Thrace Plastics

Date	Rating	Stock price	Target price
06/11/2023	Not Rated	€4.005	-
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%	2	12%
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