

April 13, 2006

Equity Research:

Current Price	€2.45
Target Price	€3.00
Market Cap. (in mln)	€111

Thrace Plastics

Attractive valuation – Multinational business

BUY

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Sector:

Specialty Chemicals

Category:

Initiating Report

Reuters:

THR.AT

Bloomberg:

PLAT GA

Strengths and Opportunities

- ✚ Defensive sector with high growth potential
- ✚ Worldwide expansion via 4 main activities
- ✚ Group restructuring will further improve the results
- ✚ Possible acquisition target

2005 Results

- ✚ Sales: €186m (+7.3%)
- ✚ EBITDA: €27.5m (+9.4%)
- ✚ EBITDA margin: 14.7% (+20bp)
- ✚ EAT: €10.0m (+48.6%)

2006 Estimates

- ✚ Sales: €199m (+6.8%)
- ✚ EBITDA: €29.1m (+5.9%)
- ✚ EBITDA margin: 14.6% (-10bp)
- ✚ EAT: €12.7m (+26.6%)

Profitability figures

	SALES (€'000s)	EBITDA (€'000s)	EBIT (€'000)	EBT (€'000)	EAT (€'000)	EPS (€)	EPS (%)	ROE (%)
2004a	173,541	25,100	12,566	10,055	6,748	0.15		
2005a	186,253	27,465	15,885	14,178	10,025	0.22	48.6%	14.1%
2006e	198,875	29,094	16,462	16,712	12,693	0.28	26.6%	15.4%
2007e	213,675	31,908	18,655	16,105	12,201	0.27	-3.9%	13.1%
2008e	227,550	34,202	20,535	17,985	13,624	0.30	11.7%	13.2%

2006 figures include an extraordinary capital gain of €2.8 mln

Valuation figures

	P/E	DPS	Dividend Yield	EV/ EBITDA	EV/ EBIT	EV/ Sales	EBITDA margin	EBIT margin
	(x)	(€)	(%)	(x)	(x)	(x)	(%)	(%)
2004a	8.5	0.017	1.3%	4.23	8.44	0.61	14.5%	7.2%
2005a	7.3	0.05	3.1%	4.58	7.92	0.68	14.7%	8.5%
2006e	8.8	0.06	2.4%	5.52	9.76	0.81	14.6%	8.3%
2007e	9.1	0.07	2.9%	4.79	8.19	0.71	14.9%	8.7%
2008e	8.2	0.08	3.3%	4.16	6.93	0.63	15.0%	9.0%

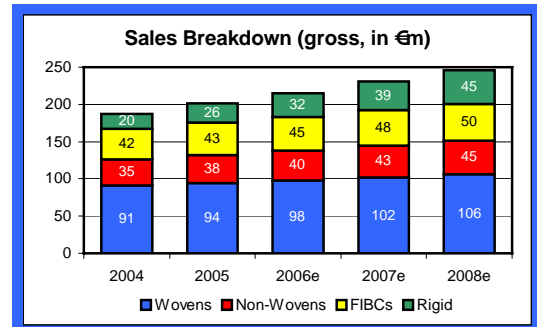
2006 figures include an extraordinary capital gain of €2.8 mln

Other Information

12m Price Range	Shares outstanding	6m average daily value
€1.00 – €2.58	45,500,000	€201,500
Major Shareholders and % Owned	Halioris Family 64%	Institutional Investors 9%
		Remaining Free Float 27%

Investment Summary

Thrace Plastics is one of the leading companies in Europe producing plastic-synthetic textile and rigid packaging products. The group has 9 major manufacturing facilities in Greece, Scotland, Romania, Bulgaria and Turkey. Furthermore, the group has commercial business units in Ireland, Norway, Sweden and Serbia. Its products are distributed throughout Europe while it has increased presence in the US, Canada, Australia and Japan. The group's main business units are:



- Technical fabrics and yarns (Wovens)**, which represents 45% of sales and include carpet backing, geotextiles and agrotexiles used in tuft industry, construction and agriculture respectively.

- Non-wovens**, which represents 20% of sales, used in construction (roofing), hygiene (diapers) and agriculture (crop cover)

- Rigid packaging**, which represents 15% of sales but is the sector with the highest growth. Rigid packaging includes plastic packaging products for food industry and chemicals.

- FIBC packaging**, which represents 20% of sales and include big bags for fertilizers and chemicals.

The group converts annually 75.000 tons of polymers (mostly polypropylene, PP), which has a high correlation with the oil price. However, the group manages to pass part of the increased costs to its end-clients.

2004 – 2008 group results and estimates

in € '000s	2004	2005	% or bp	2006e	2007e	2008e
Net Sales	173,541	186,253	7.3%	198,875	213,675	227,550
EBITDA	25,100	27,465	9.4%	29,094	31,908	34,202
<i>margin</i>	14.5%	14.7%	28	14.6%	14.9%	15.0%
Net Income	6,748	10,025	48.6%	12,693	12,201	13,624
<i>margin</i>	3.9%	5.4%	149	6.4%	5.7%	6.0%

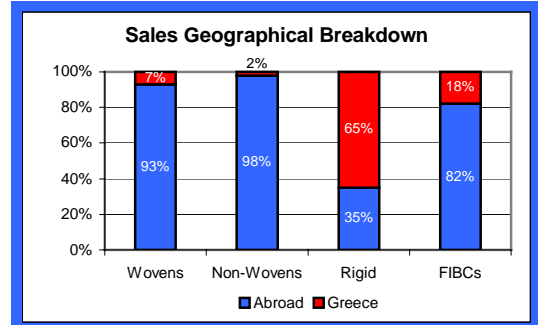
2006 figures include an extraordinary capital gain of €2.8 mln

Investment Positives

Thrace Plastics operates in the specialty chemicals market which is very promising globally and can be considered a defensive sector. Due to its know-how and its several products the company has high presence in Europe and it is constantly increasing market shares in existing or new countries, worldwide.

Moreover, the management is concentrating its effort to expand its operations in the US as well as in other continents.

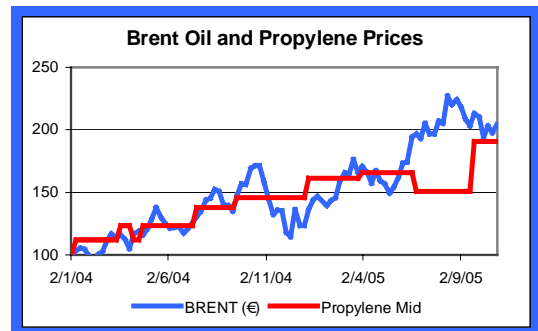
Furthermore, the company's manufacturing facilities in Greece are situated in the Northern part of the country that has favourable tax rates and subsidies due to the high unemployment rate and the government's effort for decentralization.



Finally, the management in 2005 started restructuring the group by acquiring minority stakes in its profitable subsidiaries. The restructuring plan will continue in 2006 with the merging of subsidiaries in order to further lower the operating expenses.

Investment Risks

The most significant risk the company faces is the high exposure in PP prices (an oil by-product). PP's prices have increased substantially during the last two years and this has affected significantly the company's cost of production. However, PP prices are not directly correlated to the oil price. It is mostly affected by its own demand and supply curves that sometimes happen to move in a slightly opposite position vs. oil.



Another drawback is that the pension obligations of the company's subsidiaries in Scotland and Ireland are linked to a mutual/pension fund that is currently facing a deficit of approximately €27m. However, the management tries to minimize the underlying exposure by taking provisions against this deficit.

Results and Coverage Initiation

2005 results were strong, especially in the bottom-line where the positive effect of minority buy-outs was evident. Sales increased 7.3% (€186m), EBITDA 9.4% (€27.5m) and Net Income 48.6% (€10m). Thrace Plastics trades at est. 2006 P/BV 1.3x, P/E 8.8x and EV/EBITDA 5.5x. High PP prices and competition from low-cost Asian countries remain a threat, however the group's value added product line and its expansion plans could provide the growth catalyst. We initiate coverage of Thrace Plastics with a "Buy" recommendation and a 12 month target price of €3.00 which implies a 22% upside potential compared to the current stock price.

2005 Results, 2006 – 2008 Estimates

Even though 2005 was a difficult year for companies that depend on oil prices and its by-products, Thrace Plastics managed to increase its sales by 7.3% (€186.3m) part of which came from higher volumes, especially in the fast-growing Rigid Packaging business unit. The gross profit stood at €50m posting a 5.3% increase but the gross profit margin deteriorated by 50 basis points and stood at 26.8%.

2004 – 2008 business unit results and estimates

<i>in € '000s</i>	2004	2005	% or bp	2006e	2007e	2008e
Wovens						
Sales	90,996	94,318	3.7%	98,000	102,000	106,000
EBITDA	10,354	10,797	4.3%	11,541	12,304	12,893
<i>margin</i>	11.4%	11.4%	7	11.8%	12.1%	12.2%
Non-Wovens						
Sales	35,055	37,886	8.1%	40,000	42,500	45,000
EBITDA	7,321	6,834	-6.7%	6,939	7,740	8,280
<i>margin</i>	20.9%	18.0%	-285	17.3%	18.2%	18.4%
Rigid Packaging						
Sales	19,566	25,679	31.2%	32,000	39,000	45,000
EBITDA	4,180	5,522	32.1%	6,313	7,413	8,464
<i>margin</i>	21.4%	21.5%	14	19.7%	19.0%	18.8%
FIBCs						
Sales	41,576	43,456	4.5%	45,000	47,500	50,000
EBITDA	3,691	4,262	15.5%	4,021	4,223	4,400
<i>margin</i>	8.9%	9.8%	93	8.9%	8.9%	8.8%

The management achieved to confine the administrative expenses by 12.5% and this counterbalanced the 7.5% increase of distribution expenses. EBITDA increased 9.4% to €27.5m with EBITDA margin standing at 14.7% (+20 basis points). The lower depreciation (€11.5m vs. €12.5m) and interest expenses (€2.2m vs. €3m) resulted in a 41% EBT increase (€14.2m). Net Income posted an even higher increase that resulted from the buy-out of the minority stake of a subsidiary. Specifically, Net Income posted a 46.8% increase and stood at €10m.

In the 2006 – 2008 period we expect sales to increase 6.9% CAGR and reach €227.5m by 2008. EBITDA is expected to increase 7.6% CAGR to €34.2m and Net Income 10.8% CAGR to €13.6m. Return on Equity is expected to drop to 13.2% in 2008 from 14.1% in 2005, Debt to Equity ratio is expected to drop to 0.9x from 1.4x and Bank Debt to Equity ratio to 0.5x from 0.8x. Dividend is expected to increase by €0.01 annually and reach €0.08 in 2008.

Note that our estimates for the 2006 – 2008 period are based on the current high oil and PP prices and thus do not incorporate any possible downward correction in the trend. Moreover, 2006 results include an extraordinary capital gain of €2.8m from the sale of a real estate asset and equipment.

DCF, Balance Sheet & Income Statement Analysis

The valuation of the company was based on a DCF analysis that returns a value of €3.54 per share. Adjusting this price by 15% in order to reflect the liquidity risk and the PP price risk, returns a 12-month target price of €3.00 or 22% higher than the current stock price. Based on the company's estimated results and our DCF valuation we believe that the stock is still undervalued and we give a Buy recommendation.

Thrace Plastics– DCF Valuation

	2005	2006e	2007e	2008e
EBITDA	27,465	29,094	31,908	34,202
Less Taxes	3,997	3,844	3,704	4,137
Less WC Increase	5,863	5,869	5,887	5,735
Less Capex	10,137	14,695	8,150	7,150
FCF	7,468	4,687	14,167	17,181
WACC	6.58%	7.35%	7.92%	8.28%
Discounting Factor	1.00	0.93	0.86	0.80
Discounted FCF	7,468	4,366	12,228	13,695
PV of FCF	37,757			
Terminal FCF growth	0.5%			
Residual Value	175,965			
Net Debt	52,564			
Equity Value	161,158			
Value per share	3.54			
Discount for Liquidity and PP price risk	15%			
Target Price	3.00			

Thrace Plastics– P&L Statement analysis (in € '000s, unless otherwise stated)

	2004	2005	2006e	2007e	2008e
Sales	173,541	186,253	198,875	213,675	227,550
% chng		7.3%	6.8%	7.4%	6.5%
Less: Cost of goods sold	126,055	136,262	145,551	155,861	165,573
Gross profit	47,486	49,991	53,324	57,814	61,977
% chng		5.3%	6.7%	8.4%	7.2%
Gross profit margin	27.4%	26.8%	26.8%	27.1%	27.2%
Plus: Other operating income	3,049	3,151	2,650	2,650	2,650
Less: Administration/R&D expenses	8,308	7,272	7,305	7,687	8,157
% of turnover	4.8%	3.9%	3.7%	3.6%	3.6%
Less: Distribution expenses	17,127	18,405	19,575	20,870	22,268
% of turnover	9.9%	9.9%	9.8%	9.8%	9.8%
EBITDA	25,100	27,465	29,094	31,908	34,202
% chng		9.4%	5.9%	9.7%	7.2%
EBITDA margin	14.5%	14.7%	14.6%	14.9%	15.0%
EBITDA per share (in €)	0.55	0.60	0.64	0.70	0.75
Less: Depreciation & amortization	12,534	11,580	12,632	13,253	13,667
% of fixed assets		5.1%	5.3%	5.3%	5.3%
EBIT	12,566	15,885	16,462	18,655	20,535
% chng		26.4%	3.6%	13.3%	10.1%
EBIT margin	7.2%	8.5%	8.3%	8.7%	9.0%
EBIT per share (in €)	0.28	0.35	0.36	0.41	0.45
Less: Debit interest & similar charges	2,980	2,182	2,550	2,550	2,550
Plus: Financial & income from securities	469	475	2800	0	0
EBT	10,055	14,178	16,712	16,105	17,985
% chng		41.0%	17.9%	-3.6%	11.7%
Less: Income tax	1,910	3,997	3,844	3,704	4,137
% effective tax rate	19.0%	28.2%	23.0%	23.0%	23.0%
EAT before Minority Rights	8,145	10,181	12,868	12,401	13,849
% chng		25.0%	26.4%	-3.6%	11.7%
Less: Minority Rights	1,397	156	175	200	225
EAT	6,748	10,025	12,693	12,201	13,624
% chng		48.6%	26.6%	-3.9%	11.7%
Net profit margin	3.9%	5.4%	6.4%	5.7%	6.0%
EPS after tax (in €)	0.15	0.22	0.28	0.27	0.30
EPS chng		48.6%	26.6%	-3.9%	11.7%

Thrace Plastics – Balance Sheet analysis (in € '000s, unless otherwise stated)

	2004	2005	2006e	2007e	2008e
Net Fixed Assets	101,280	98,736	100,799	95,696	89,179
Incorporated Fixed Assets	210,397	220,491	235,000	243,000	250,000
Less Acc. Depreciation / Amortization	118,993	131,652	144,178	157,323	170,881
Immaterial Fixed Assets	10,471	10,514	10,700	10,850	11,000
Less Acc. Depreciation / Amortization	595	617	723	831	940
Other Long-Term Assets	7,833	7,787	7,893	7,993	8,093
Deferred Taxes	6,809	6,622	6,700	6,800	6,900
Investments for Sale	739	893	893	893	893
Other Long-Term Debtors	285	272	300	300	300
Current Assets	93,213	105,701	116,766	126,333	138,139
Inventories	27,663	36,271	39,504	42,868	46,108
Debtors	52,639	57,242	62,344	67,653	72,766
Other Short-Term Debtors	323	84	90	96	103
Cash & Liquid Assets	12,588	12,104	14,830	15,716	19,162
TOTAL ASSETS	202,326	212,224	225,458	230,023	235,411
Shareholders' Equity	64,842	76,934	88,352	97,823	108,261
Paid-In Capital	20,020	22,750	22,750	22,750	22,750
Reserves	44,822	54,184	65,602	75,073	85,511
Minority interest on share capital	15,707	2,936	3,111	3,311	3,536
Provisions	26,937	27,240	27,000	26,000	25,000
Employee Insurance	26,937	27,240	27,000	26,000	25,000
Long-term Liabilities	27,695	23,939	22,200	20,200	18,200
Long-Term Bank Debt	22,417	18,827	17,000	15,000	13,000
Deferred Taxes	5,070	4,930	5,000	5,000	5,000
Other Long-term Liabilities	208	182	200	200	200
Short-term Liabilities	67,145	81,175	84,795	82,689	80,414
Accounts Payable	27,425	33,898	36,195	38,889	41,414
Short-Term Bank Debt	38,899	45,841	47,000	42,000	37,000
Taxes Payable	821	1,436	1,600	1,800	2,000
TOTAL EQUITY & LIABILITIES	202,326	212,224	225,458	230,023	235,411

Thrace Plastics – Ratio analysis

	2005	2006e	2007e	2008e
Liquidity: Current Ratio	1.30	1.38	1.53	1.72
Acid Test	0.86	0.91	1.01	1.14
Activity: Avg Receivables to Turnover days	108	110	111	113
Avg Trade Creditors to Purchases days	82	88	88	89
Avg Inventories to Turnover days	63	70	70	71
Financial Structure: Debt to Equity	1.37	1.21	1.05	0.91
Bank Debt to Equity	0.84	0.72	0.58	0.46
Fixed to Total Assets	46.52%	44.71%	41.60%	37.88%
Profitability: Return on Total Assets	4.84%	5.80%	5.36%	5.85%
Return on Equity	14.14%	15.36%	13.11%	13.22%

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