

AD Plastik

Hold

Initiation of coverage

Price: HRK 130

Price target: HRK 147

Ready for the rebound, when it comes

We initiate coverage of AD Plastik with a HOLD recommendation and a 12M price target (PT) of HRK 147/share, implying 14% upside. AD Plastik is a car parts manufacturer, focusing on plastic components for passenger cars. The company has a broad portfolio of clients, supplying its products across Europe and Russia. Despite operating in one of the sectors hit the most by the pandemic, AD Plastik has managed the difficult situation well so far and has even signed more contracts for its already busy pipeline. While we like the company and appreciate its recent achievements, there are still too many risks that it cannot control, in our view, from a slower-than-expected recovery, an accelerating pandemic, potential changes in the deal pipeline made by customers, to FX volatility. We believe that AD Plastik can survive all of these things, should they materialise; however, given the uncertainties ahead, we choose to HOLD the stock, until the outlook becomes clearer.

Auto parts manufacturer in SEE and CEE. AD Plastik focuses mainly on interior and exterior plastic components for passenger vehicles. The company has plants in Croatia, Hungary, Serbia and Russia, supplying major automotive groups, from Renault to PSA, VW and Suzuki. EAPS, a Romanian 50/50 JV, which supplies Dacia, is also an important value driver for the stock.

Automotive market in deep turmoil. The sector has been hit particularly by the pandemic. With most plants being shut down for weeks or even months, and weak demand, in Europe, passenger car sales are down 33% ytd. The Russian market looks more resilient ytd, dropping only 12%. In 1H20, revenues fell 23%, and the outlook for this year and onwards is still blurry. While this is an unprecedented situation for the company, it has managed the crisis well so far. While capex has been limited and the dividend has been suspended, AD Plastik has enough cash, runs smoothly and does not expect delays in its deliveries.

Deal pipeline might help it outperform the market. Despite the pandemic, AD Plastik has managed to add more deals to its already busy pipeline. This is certainly encouraging and the deal pipeline ahead looks strong. However, we note that the final revenue realisation will depend largely on consumers, and there could be downside for the current contracts' value, should the recovery be slower than expected.

Dividend suspended, for now. AD Plastik, a consistent dividend payer, has omitted to pay a dividend in the second part of 2020, which is understandable, given the circumstances. The company has also used COVID-19 aid from the government and, should it pay a dividend this or next year, it would have to return part of this support. Therefore, we expect it to resume dividends in 2022E.

Risks: there are many. On the economic front, weaker-than-expected new car registrations or a second wave of the pandemic, which could, in the worst case, lead to plant shutdowns again and affect future revenues significantly. AD Plastik is also exposed to FX risk, namely on its EUR-denominated debt, and is still heavily dependent on one customer – Renault.

Valuation. AD Plastik is trading at our 2020-22E P/E's of 6.8-17.3x and EV/EBITDAs of 4.7-6.8x, slightly below its peers. Our valuation, based on a DCF and peer multiples (80:20), yields 14% upside for the stock.

| HRK m | Sales | EBITDA | Net Profit | EPS (HRK) | P/E (x) | EV/EBITDA (x) | P/BV (x) | Div. yield | DPS (HRK) |
|-------|-------|--------|------------|-----------|---------|---------------|----------|------------|-----------|
| 2017 | 1,090 | 158 | 70 | 16.7 | 8.8 | 6.0 | 0.8 | 5.8% | 8.5 |
| 2018 | 1,321 | 162 | 89 | 21.3 | 7.6 | 6.6 | 0.9 | 6.2% | 10.0 |
| 2019 | 1,542 | 197 | 103 | 24.4 | 7.6 | 6.3 | 0.9 | 6.6% | 12.3 |
| 2020E | 1,192 | 138 | 31 | 7.5 | 17.3 | 6.8 | 0.6 | 3.1% | 4.0 |
| 2021E | 1,354 | 143 | 40 | 9.4 | 13.7 | 6.2 | 0.6 | 0.0% | 0.0 |
| 2022E | 1,468 | 189 | 80 | 19.1 | 6.8 | 4.7 | 0.6 | 7.4% | 9.5 |

Analysts: Ondrej Slama; Alex Boulougouris, CFA
E-mail: ondrej.slama@wood.com, alex.boulougouris@wood.com

Expected events

| | |
|---------------------------|-------------|
| 3Q20 results | 28 October |
| Supervisory board meeting | 17 December |

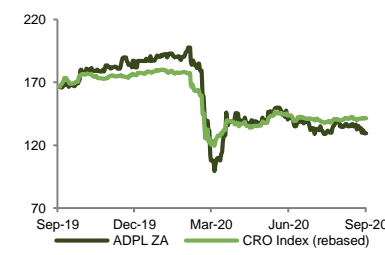
Key data

| | |
|--------------------|------------------|
| Market Cap | EUR 72m |
| Free float | 67% |
| 3M ADTV | EUR 30k |
| Shares outstanding | 4.2m |
| Major Shareholder | OAO Holding, 30% |
| Bloomberg Code | ADPL ZA |
| CRO Index | 1,612 |

Price performance

| | |
|----------------------|---------|
| 52-w range | 100-198 |
| 52-w performance | -22% |
| Relative performance | -7% |

AD Plastik 12M share price performance



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Closing Prices as of 18 September 2020

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Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

Company snapshot – HOLD, PT HRK 147

AD Plastik

HOLD

| | |
|------------------------|---------|
| Bloomberg ticker | ADPL ZA |
| Closing price (HRK) | 130 |
| Price target (HRK) | 147 |
| Upside to PT | 14% |
| Shares outstanding (m) | 4.2 |
| Mcap EUR (m) | 72 |
| 3M ADTV (EUR ths) | 30 |
| Free float | 67% |
| 52 Week Range | 100-198 |
| 52W performance | -22% |
| Relative performance | -7% |



COMPANY DESCRIPTION

AD Plastik is an auto parts manufacturer, producing mainly interior and exterior plastic car components. The company has been present in the business for almost three decades, but traces its roots back to 1952. Over the years, AD Plastik has grown its exposure to 20 countries in five continents, with subsidiaries in five countries. The company has dozens of long-term agreements with many major automotive companies, and a strong pipeline of deals ahead. In the past five years, AD Plastik managed to secure deals with international partners, valued at almost EUR 700m, driving its revenues and net profit to record levels last year. Despite the accelerating capex in recent years, the company has also kept on increasing its dividend payout, yielding almost 7% last year. Then, early this year, the COVID-19 pandemic arrived in full force, disrupting the automotive market at an unprecedented level.

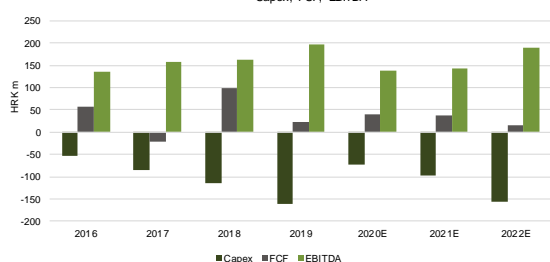
RATIOS

| PER SHARE RATIOS | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | VALUATION RATIOS | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|-------------------|-------|-------|-------|-------|-------|-------|-------|------------------|-------|-------|-------|-------|-------|-------|-------|
| EPS | 11.8 | 16.7 | 21.3 | 24.4 | 7.5 | 9.4 | 19.1 | P/E | 9.6x | 8.8x | 7.6x | 7.6x | 17.3x | 13.7x | 6.8x |
| BV/PS | 166.0 | 178.5 | 186.7 | 204.6 | 208.0 | 217.5 | 227.0 | P/CF | 4.8x | 8.2x | 4.3x | 6.5x | 6.2x | 5.4x | 4.3x |
| DPS | 12.0 | 8.5 | 10.0 | 12.3 | 4.0 | 0.0 | 9.5 | P/BV | 0.7x | 0.8x | 0.9x | 0.9x | 0.6x | 0.6x | 0.6x |
| FINANCIAL RATIOS | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | EV/EBITDA | 6.5x | 6.0x | 6.6x | 6.3x | 6.8x | 6.2x | 4.7x |
| EBITDA margin | 14.5% | 14.5% | 12.2% | 12.8% | 11.6% | 10.5% | 12.9% | EV/Sales | 0.9x | 0.9x | 0.8x | 0.8x | 0.8x | 0.7x | 0.6x |
| EBIT margin | 6.3% | 6.9% | 5.4% | 5.6% | 2.9% | 2.5% | 5.4% | EV/EBIT | 14.9x | 12.6x | 15.0x | 14.2x | 27.6x | 25.7x | 11.2x |
| Net margin | 5.3% | 6.4% | 6.8% | 6.7% | 2.6% | 2.9% | 5.5% | FCF, HRK m | 58 | -21 | 98 | 22 | 39 | 37 | 15 |
| ROE | 7.1% | 9.4% | 11.4% | 11.9% | 3.6% | 4.3% | 8.4% | FCF yield | 12.0% | -3.4% | 14.6% | 2.8% | 7.2% | 6.8% | 2.7% |
| ROIC | 5.4% | 6.1% | 6.3% | 5.8% | 2.6% | 2.4% | 5.5% | Dividend yield | 10.5% | 5.8% | 6.2% | 6.6% | 3.1% | 0.0% | 7.4% |
| ROA | 3.7% | 5.2% | 5.7% | 6.1% | 1.9% | 2.2% | 4.4% | Payout ratio | 108% | 71% | 59% | 58% | 16% | 0% | 101% |
| Net debt/EBITDA | 2.93x | 2.12x | 2.41x | 2.28x | 2.86x | 2.37x | 1.83x | | | | | | | | |
| Total debt/Equity | 58.6% | 46.2% | 54.3% | 54.7% | 48.9% | 50.2% | 47.3% | | | | | | | | |

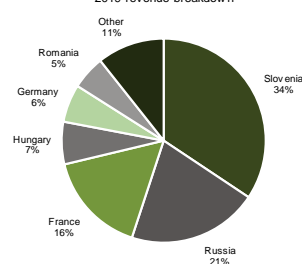
COMPANY FINANCIALS

| INCOME STATEMENT, HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | BALANCE SHEET, HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|--------------------------------|------|-------|-------|-------|-------|-------|-------|-------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Revenues | 936 | 1,090 | 1,321 | 1,542 | 1,192 | 1,354 | 1,468 | Fixed Assets | 930 | 919 | 1,002 | 1,088 | 1,105 | 1,132 | 1,138 |
| Cost of Raw Materials | -26 | -61 | -103 | -171 | -114 | -131 | -147 | Intangible assets | 119 | 105 | 111 | 105 | 98 | 141 | 136 |
| Cost of Goods Sold | -462 | -546 | -663 | -731 | -551 | -627 | -685 | Property, plant and equipment | 700 | 650 | 709 | 787 | 809 | 790 | 798 |
| Gross profit | 447 | 482 | 555 | 640 | 526 | 596 | 636 | Investments in associates | 83 | 97 | 92 | 93 | 94 | 96 | 99 |
| Operating expenses | -312 | -324 | -393 | -443 | -388 | -453 | -447 | Other | 28 | 67 | 90 | 104 | 105 | 105 | 105 |
| EBITDA | 136 | 158 | 162 | 197 | 138 | 143 | 189 | Current Assets | 410 | 433 | 565 | 596 | 581 | 638 | 671 |
| Depreciation | -77 | -83 | -91 | -110 | -104 | -108 | -110 | Inventories | 108 | 155 | 231 | 207 | 187 | 174 | 193 |
| EBIT | 59 | 75 | 71 | 87 | 34 | 34 | 79 | Trade receivables | 133 | 199 | 219 | 270 | 262 | 244 | 271 |
| Profit from Associates | 43 | 56 | 50 | 41 | 14 | 22 | 24 | Cash and cash equivalents | 10 | 10 | 36 | 27 | 41 | 129 | 113 |
| Net financial income | -53 | -52 | -34 | -14 | -16 | -12 | -14 | Other | 160 | 69 | 79 | 92 | 91 | 91 | 94 |
| Profit Before Tax | 49 | 79 | 87 | 114 | 33 | 44 | 89 | Total assets | 1,341 | 1,351 | 1,567 | 1,685 | 1,687 | 1,770 | 1,809 |
| Taxes | 1 | -9 | 3 | -11 | -2 | -4 | -9 | Current Liabilities | 454 | 394 | 501 | 576 | 593 | 647 | 645 |
| Net Income | 50 | 70 | 89 | 103 | 31 | 40 | 80 | Short Term Borrowing | 223 | 142 | 148 | 232 | 219 | 260 | 253 |
| CASH FLOW, HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | Payables | 144 | 173 | 224 | 237 | 243 | 227 | 251 |
| CF from Operations | 99 | 75 | 157 | 120 | 87 | 100 | 126 | Other | 87 | 79 | 129 | 106 | 130 | 160 | 142 |
| Thereof depreciation | 77 | 83 | 91 | 110 | 104 | 108 | 110 | LT Liabilities | 833 | 810 | 1,064 | 1,075 | 1,033 | 1,067 | 1,065 |
| Thereof changes in w/c | -15 | -88 | 33 | -29 | -23 | -13 | -19 | LT Loans | 186 | 204 | 278 | 238 | 208 | 198 | 198 |
| CF from Investments | 2 | 23 | -117 | -107 | -14 | -44 | -94 | Other LT liabilities | 4 | 4 | 4 | 12 | 12 | 12 | 12 |
| Thereof CAPEX | -54 | -86 | -115 | -162 | -72 | -98 | -156 | Total Liabilities | 643 | 602 | 783 | 825 | 813 | 857 | 855 |
| Thereof Dividends Received | 46 | 42 | 54 | 40 | 20 | 14 | 22 | Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CF from Financing | -103 | -99 | -14 | -22 | -60 | 31 | -48 | Shareholders' Equity | 697 | 750 | 784 | 859 | 874 | 913 | 953 |
| Thereof Dividends Paid | -50 | -35 | -41 | -52 | -17 | 0 | -40 | Total Liabilities and Equity | 1,341 | 1,351 | 1,567 | 1,685 | 1,687 | 1,770 | 1,809 |
| Thereof Net Proceeds From Loan | -50 | -60 | 39 | 40 | -43 | 31 | -8 | Net debt | 398 | 336 | 389 | 451 | 394 | 338 | 346 |
| Cash Movement | -2 | 0 | 26 | -9 | 14 | 87 | -16 | | | | | | | | |

Capex, FCF, EBITDA



2019 revenue breakdown



Stabilised and ready for the rebound, when it comes

We initiate coverage of AD Plastik with a HOLD recommendation and 12M PT of HRK 147/share, implying 14% upside. AD Plastik is a car parts manufacturer, focusing on interior and exterior plastic components for passenger cars. The company has a broad portfolio of clients, supplying products to many automotive majors across Europe and Russia. Despite operating in one of the sectors hit the most by the pandemic, AD Plastik has managed the difficult situation well so far and has even signed more contracts for its already busy pipeline this year. While we like the company and appreciate its recent revenue growth, which has outperformed the market strongly in recent years, there are still too many risks that the company cannot control, in our view, from a slower-than-expected recovery, an accelerating pandemic, potential changes in the deal pipeline made by customers, to FX volatility. We believe that AD Plastik can survive all these things, should they materialise; however, given the uncertainties ahead, we choose to HOLD the stock, until the outlook becomes clearer. AD Plastik is trading at our 2020-22E P/Es of 6.8-17.3x and EV/EBITDAs of 4.7-6.8x, slightly below its peer group.

Auto parts manufacturer focusing on interior and exterior plastic components

AD Plastik focuses mainly on interior and exterior plastic car components. Over the past three decades, the company has built strong relationships with the global automotive majors, growing its sales gradually in the European and Russian markets. In past years, the company's sales have been boosted by several major contracts, amounting to EUR 700m. Despite the heavy capex connected to the expansion, the company's financial position has remained strong and AD Plastik has continued to pay generous dividends. While the European demand for passenger cars has been soft in past years, AD Plastik managed to outperform the European market by a wide margin; while its increasing exposure to the Russian market, which looks much more attractive compared to the EU in the long term, in our view, promises future revenue growth.

COVID-19: automotive industry is among the hardest hit

The pandemic has caused an unprecedented situation for both manufacturers and their suppliers, with most plants being shut down for weeks, or even several months, before returning to operations, mostly at lower utilisation levels due to the weak demand. In Europe, passenger car sales are down 33% ytd; while, in Russia, the ytd drop has been 12% so far (both as of August 2020). Despite the difficult conditions, AD Plastik has secured new deals and has managed the situation very well, in our view. The company has enough cash for smooth operations, sees little risk for its current contracts and stands ready for the rebound in the market, in our view. To support its liquidity position, AD Plastik used COVID-19 state aid, supporting its EBITDA and delaying the interest payments on debt, and sold its Makarska real estate to boost its liquidity further.

Strong pipeline ahead

In 2019, the main revenue drivers were the start of production of the Ford Puma and the Clio V, and the redesigned Smart and Twingo models. This year, revenue will be supported via diverse sources, from deals with PSA, Fiat, VW and Renault, followed by PSA deals by the end of 2021E. In 3Q22E, a EUR 98m contract for Logan and Sandero starts, while the Lada Granta in 1Q23E (EUR 71m) and the redesigned Lada Niva (EUR 58m), planned for 4Q23E, should boost AD Plastik's earnings further. While AD Plastik has a good relationship with its long-term partners, the company is also diversifying in terms of brands and countries. We particularly like the recent deals in the Russian market, as we believe the long-term prospects for Russia, in terms of passenger car sales, are much better than in Europe.

EU and Russian market outlook

The form and timing of the recovery are both very uncertain at this stage, in our view. This crisis is much deeper than the one in 2008-09, or the European banking crisis, which started in 2010. The slowdown in the automotive industry has started already, before the pandemic hit. We reflect the ACEA's estimate of a 25% fall in the registrations of passenger cars in Europe and forecast a slightly lower drop in Russia, with new registrations down only 12% ytd in this country. For Europe, we model a 22% revenue drop, broadly in line with the ACEA's estimate, to which we now see some downside, given the weak August registration figures. That said, in general, the production figures should be slightly higher than sales, in our view. Our estimate for the Russian revenues (-25% yoy) also reflects a deeper dive in AD Plastik's exposure compared to the premium brands. We do not expect AD Plastik to achieve last year's record revenues until 2023E, but we admit that our estimates might be subject to change, depending on the performance of the market in the coming months and quarters. The company has managed to grow despite softer demand in the past and might surprise us on the upside. More incentives to buy new cars introduced by governments might also offer more upside. The effect of incentives on new car sales has been limited so far, especially in Europe compared to Russia, and we believe that policy makers need

to introduce more packages to stimulate future growth. Until the outlook becomes clearer, we prefer to stay cautious.

2020E revenue to plunge, broadly in line with the overall market

2019 was a record-breaking year in terms of revenue and net profit. This year, however, we are facing a totally opposite picture, with revenues falling 23% and net profit by 69%, on our numbers, and we do not expect AD Plastik to reach its 2019 revenue level until 2023E. Despite the weakness, we note that the company is liquid enough to finance its upcoming projects, while resuming its dividends in 2022E, on our estimates. The recovery might also be much quicker than our current estimates, which we believe are cautious enough for 2021-24E, and AD Plastik, as in recent years, could outperform the market. However, at this point, there are still too many uncertainties to forecast the shape of the revenue rebound.

No dividend, no guidance, with the outlook still too blurry

After paying a solid dividend of HRK 12.3/share in 2019, AD Plastik paid out a HRK 4/share interim dividend in 1Q20, before the COVID-19 pandemic hit. We do not expect more payouts either this or next year, given the weaker operational performance, but also due to the state aid and AD Plastik's track record. Should AD Plastik decide to pay out a dividend later this or next year, it would have to return part of the support it has received from the state. Separately, during the 1Q20 results call, the company discontinued its guidance for 2020E. No guidance was provided after the 2Q20 results either, but AD Plastik commented that the expected fall in its revenues could be somewhere around 25% this year, or in line with the market's expectations for the automotive sector, and slightly below our estimate of -23% yoy for this year's revenues.

Still too many risks

Half a year after the first plant shutdowns, there are still many risks related to the pandemic. The drop in demand is unprecedented and, despite AD Plastik's relatively stable financial position, could lead to changes on its customers' and partners' side, which is outside of the company's control, due to delays in or the cancellations of contracts, bankruptcies or supply chain disruptions. A significant rise in COVID-19 cases could, in the worst-case scenario, lead to another wave of shutdowns. The fall in demand for the full year is still difficult to predict, as is the form of the recovery thereafter. AD Plastik's EUR and RUB exposures also pose a risk to the bottom line and revenues. The company is also heavily exposed to one customer, Renault, despite recent successful attempts to reduce this dependence. AD Plastik has insignificant exposure to the UK market, but any potential negative effects on its customers could materialise soon, should the Brexit negotiations fail. On the other hand, the company might be able to deliver better figures than we expect and might add more deals to the pipeline. New stimulus to support the sales of all types of vehicles, especially in Europe, would also help the valuation, in our view.

Valuation: too risky for a bullish call

We value AD Plastik at HRK 147/share, implying 14% upside and a HOLD recommendation. We use a SOTP valuation for AD Plastik and its 50% stake in the EAPS JV, using DCFs for both companies. Then, as a sanity check for our first approach, we use a peer valuation. We assign an 80% weight to our first approach and 20% to the peer valuation. Our DCF generates 13% upside, while our peer valuation implies 15% upside.

Valuation

We value AD Plastik at HRK 147/share, implying a 14% upside and a HOLD recommendation. We use SOTP valuations for AD Plastik and its 50% stake in the EAPS JV, using a five-year DCF for both. Then, as a sanity check for our first approach, we use a peer valuation. We assign an 80% weight to the DCF and 20% to the peer valuation.

Valuation summary

| | HRK/share | Upside |
|--|------------|------------|
| DCF | 147 | 13% |
| Peers | 149 | 15% |
| EV/EBITDA | 156 | 20% |
| P/E | 142 | 10% |
| Weighted average (80 DCF: 20 peers) | 147 | 14% |

Source: WOOD Research

SOTP

Through our DCF, we value the businesses consolidated under AD Plastik at HRK 80/share. Then, we add the equity value of Euro APS (EAPS), the Romanian JV in which AD Plastik holds 50% and books as an equity investment. This adds HRK 51/share to our PT. After adjusting for the COE, we arrive at a 12M PT of HRK 147/share, or 13% upside.

DCF: AD Plastik

Our assumptions are:

- A cost of equity of 17.8%, a beta of 1.8x (derived from Damodaran and adjusted for debt), and an ERP of 7%. We adjust our regular ERP for Croatia upwards, by 2%, to account for the stock's low liquidity.
- A cost of debt of 4% and a tax rate of 18%, to stay on the conservative side. This produces a WACC of 12.2-12.4% for our forecast period.
- We use a 2% terminal growth rate, expecting the Russian market to outperform the EU and the Serbian region in the long term.

DCF: AD Plastik

| HRK, ths | 2020E | 2021E | 2022E | 2023E | 2024E |
|---|----------------|---------------|---------------|---------------|---------------|
| EBIT | 34,040 | 34,359 | 79,366 | 82,700 | 84,190 |
| Taxes | -927 | -2,189 | -6,498 | -7,072 | -13,051 |
| NOPAT | 33,113 | 32,169 | 72,869 | 75,628 | 71,139 |
| Depreciation | 103,776 | 108,299 | 110,069 | 114,700 | 116,781 |
| Change in net working capital | -23,330 | -12,870 | -18,899 | -12,027 | -6,130 |
| Capex | -72,471 | -97,988 | -156,325 | -136,714 | -106,002 |
| FCF | 87,747 | 55,350 | 45,511 | 65,641 | 88,048 |
| Discount factor | 0.97 | 0.86 | 0.77 | 0.68 | 0.61 |
| PV of FCF | 84,951 | 47,805 | 35,000 | 44,900 | 53,844 |
| Sum of NPV of FCF | 266,500 | | | | |
| Terminal growth rate | 2% | | | | |
| Terminal value | 539,162 | | | | |
| Enterprise Value | 805,661 | | | | |
| Net Debt, 2019, adjusted for 2020 dividend | 467,861 | | | | |
| Minorities | 0 | | | | |
| Fair Value of Equity excluding EAPS | 337,800 | | | | |
| per share | 80 | | | | |
| Ent. Value of 50% stake in EAPS using FCFF | 213,268 | | | | |
| EAPS value per share | 51 | | | | |
| Fair Value of Equity with JV | 551,068 | | | | |
| Fair Value of Equity Per Share | 131 | | | | |
| 12M PT | 147 | | | | |
| <i>Upside potential</i> | <i>13%</i> | | | | |

Source: Company data, WOOD Research

WACC: AD Plastik

| | 2020E | 2021E | 2022E | 2023E | 2024E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Risk-free rate | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Beta | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Equity risk premium | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| Cost of equity | 17.8% | 17.8% | 17.8% | 17.8% | 17.8% |
| Cost of debt | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Tax rate | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% |
| Effective cost of debt | 3.3% | 3.3% | 3.3% | 3.3% | 3.3% |
| Weight of debt | 44.0% | 45.7% | 45.3% | 44.9% | 45.6% |
| Weight of equity | 56.0% | 54.3% | 54.7% | 55.1% | 54.4% |
| WACC | 12.4% | 12.2% | 12.2% | 12.3% | 12.2% |

Source: WOOD Research

DCF: Euro APS business

EAPS is an important value driver for the whole group. The company is booked under equity investments, being consolidated by Faurecia. We use a DCF model to estimate the JV's value, which we then adjust for AD Plastik's 50% stake. We arrive at HRK 51/share for AD Plastik's 50% share in the company.

Our assumptions are:

- A cost of equity of 18.6%, using a RFR of 8% and a beta of 1.7x.
- A cost of debt of 6% and a tax rate of 16%. This produces a WACC of 15.5% for our forecast period as EAPS has no debt.
- We use a 2% terminal growth rate.

DCF: EAPS

| HRK ths | 2020E | 2021E | 2022E | 2023E | 2024E |
|---------------------------------|----------------|---------------|---------------|---------------|---------------|
| Revenues | 575,398 | 678,970 | 733,288 | 762,619 | 777,871 |
| EBITDA | 54,474 | 75,057 | 81,062 | 91,056 | 92,877 |
| Net profit | 28,958 | 44,367 | 47,983 | 55,608 | 56,736 |
| EBIT | 36,474 | 53,817 | 58,123 | 67,199 | 68,543 |
| Taxes | -5,516 | -8,451 | -9,140 | -10,592 | -10,807 |
| NOPAT | 30,958 | 45,367 | 48,983 | 56,608 | 57,736 |
| Depr, Capex, Change in WC | 754 | -5,155 | -3,727 | -2,956 | -2,555 |
| FCFF | 31,712 | 40,212 | 45,256 | 53,651 | 55,181 |
| Discount factor | 0.95 | 0.80 | 0.68 | 0.57 | 0.48 |
| PV of FCFF | 30,250 | 32,342 | 30,691 | 30,678 | 26,604 |
| Sum of NPV of FCFF | 150,565 | | | | |
| Terminal growth rate | 2% | | | | |
| Terminal value | 163,472 | | | | |
| Net cash | 112,500 | | | | |
| Equity value | 426,536 | | | | |
| 50% stake | 213,268 | | | | |
| HRK per AD Plastik share | 51 | | | | |

Source: Company data, WOOD Research

WACC: EAPS

| | 2020E | 2021E | 2022E | 2023E | 2024E |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Risk-free rate | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Beta | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Equity risk premium | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Cost of equity | 18.6% | 18.6% | 18.6% | 18.6% | 18.6% |
| Cost of debt | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Tax rate | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| Effective cost of debt | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Weight of debt | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Weight of equity | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| WACC | 18.6% | 18.6% | 18.6% | 18.6% | 18.6% |

Source: WOOD Research

Peers

Our peer valuation, which uses an equal weight for the 2021-22E EV/EBITDA and P/E multiples, offers 15% upside, or a 12M PT of HRK 149/share. With many peer P/Es negative in 2020E, we decided to use only the 2021E and 2022E multiples for the peer valuation. On our 2021-22E P/Es, AD Plastik trades at 6.8-13.7x, offering 10% average upside. On the 2021-22E EV/EBITDAs, which we adjust for EAPS' 50% share in EBITDA and net cash, the upside is 20%.

EV/EBITDAs

| HRK m | 2021E | 2022E |
|---------------------|------------|------------|
| Peer multiple | 5.1 | 4.2 |
| EBITDA | 180 | 230 |
| Net debt | 281 | 290 |
| Equity value | 637 | 673 |
| Average | 655 | |
| HRK/share | 156 | |
| <i>Upside</i> | <i>20%</i> | |

Source: Bloomberg, WOOD Research

P/Es

| HRK m | 2021E | 2022E |
|---------------------|------------|------------|
| Peer multiple | 12.7 | 8.6 |
| Net profit | 40 | 80 |
| Equity value | 505 | 687 |
| Average | 596 | |
| HRK/share | 142 | |
| <i>Upside</i> | <i>10%</i> | |

Source: Bloomberg, WOOD Research

Selected auto parts peers

| Company | MCAP (EUR m) | AVTD 3M (EUR m) | P/E (x) | | | EV/EBITDA | | | Div yield (%) | | | |
|---|-----------------|--------------------|---------|-------------|-------------|------------|------------|------------|---------------|------------|------------|------------|
| | | | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | |
| Faurecia | 5,004 | 18.0 | nm | 11.0 | 6.7 | 6.2 | 3.8 | 3.0 | 1.7 | 2.9 | 3.9 | |
| Grammer | 223 | 0.03 | nm | 10.8 | 5.0 | 19.9 | 4.9 | 3.8 | na | 5.6 | 5.9 | |
| Hyundai Wia Corp | 842 | 8.7 | 16.6 | 11.1 | 8.5 | 5.5 | 4.6 | 4.0 | 1.7 | 1.8 | 1.9 | |
| Lear Corp | 5,893 | 45.3 | 39.6 | 10.3 | 7.6 | 8.4 | 4.6 | 3.8 | 0.6 | 1.3 | 1.5 | |
| Magna | 11,616 | 52.4 | 32.2 | 12.4 | 9.8 | 7.6 | 4.7 | 4.0 | 2.6 | 2.7 | 3.0 | |
| Minth Group | 3,815 | 14.4 | 26.1 | 18.5 | 15.7 | 11.9 | 9.0 | 7.8 | 1.6 | 2.1 | 2.6 | |
| Plastic Omnium | 3,224 | 3.4 | nm | 18.3 | 10.6 | 6.6 | 4.7 | 3.8 | 1.3 | 2.2 | 2.9 | |
| Polytec Holding | 117 | 0.1 | nm | 9.5 | 4.8 | 8.0 | 4.5 | 3.3 | 0.0 | 3.8 | 6.2 | |
| Toyoda Gosei Co Ltd | 2,456 | 5.7 | 32.2 | 10.7 | 9.6 | 6.4 | 4.7 | 3.7 | 2.3 | 2.5 | 3.0 | |
| Toyota Boshoku Group | 2,282 | 4.5 | 78.9 | 11.1 | 9.4 | 4.0 | 3.4 | 2.7 | 2.7 | 3.1 | 3.5 | |
| Valeo | 6,467 | 27.4 | nm | 19.5 | 10.5 | 9.1 | 4.7 | 3.9 | 0.7 | 2.4 | 3.8 | |
| Visteon | 1,732 | 16.8 | nm | 20.8 | 13.3 | 15.1 | 7.7 | 5.6 | 0.1 | 0.0 | 0.0 | |
| Median | | | | 29.1 | 11.0 | 8.1 | 7.8 | 4.6 | 3.8 | 1.6 | 2.5 | 3.0 |
| Average | | | | 28.6 | 12.7 | 8.6 | 9.2 | 5.1 | 4.2 | 1.4 | 2.8 | 3.5 |
| AD Plastik | 72 | 0.03 | | 17.3 | 13.7 | 6.8 | 6.8 | 6.2 | 4.7 | 3.1 | 0.0 | 7.4 |
| discount/premium of AD Plastik to median | | | | -40% | 24% | -16% | -13% | 33% | 23% | 92% | nm | 147% |
| discount/premium of AD Plastik to average | | | | -39% | 8% | -21% | -26% | 21% | 12% | 125% | nm | 110% |

Source: Bloomberg, WOOD Research

Risks

COVID-19 and related government measures. The accelerating pandemic poses a risk to the current GDP and new cars demand outlook. In the worst-case scenario, the plants could be shut down again. Separately, moratoriums on debt end in the coming weeks in many countries, and we cannot rule out bankruptcies and supply chain disruptions, which might also affect AD Plastik.

Renault exposure. Despite recent attempts to diversify its portfolio, the company is still heavily reliant on contracts from Renault, mainly the Smart and Twingo models, as well as Dacia; ytd, Renault has underperformed its peers in terms of new car sales.

Recovery. It is still difficult to forecast the form of the recovery in the automotive sector in the coming quarters and even years. We believe we are conservative enough in our estimates, but the uncertainty over demand for new cars will be present for many quarters ahead.

Contracts. Currently, AD Plastik sees little risk for the contracts agreed with its partners. We note, however, that the final offtake and revenue generation depends mainly on consumers and, should the recovery be much slower than expected, the company's customers could decide to scale down or cancel some of the contracts. Securing new deals would, however, drive the share price higher, in our view.

Incentives. While some European countries have introduced incentives for consumers to encourage them to buy new cars, such as car-scrapping programmes and subsidies for electric vehicles, we believe that much more is needed to support the industry. A major stimulus package, in both the EU and Russia, could lead to more upside for our numbers.

FX. While AD Plastik's Russian contracts include quarterly adjustments to pricing, which serves as a natural hedge, an even deeper depreciation of the RUB could lead to weaker demand, in our view. The debt at the Russian subsidiaries is denominated in RUB, as well as in EUR. Moreover, the HRK has also depreciated vs. the EUR, leading to FX losses on the company's EUR-denominated debt. An even deeper depreciation of the HRK or the RUB might lead to more downside for our numbers.

Brexit and tariffs. While AD Plastik's direct exposure to the UK market is relatively small (3% of revenues in 2019), the company's partners might face significant headwinds if the negotiations fail, which might lead to operating weakness and changes in strategies. Moreover, uncertainties over the tariffs imposed by the US still present a threat to the EU automotive sector.

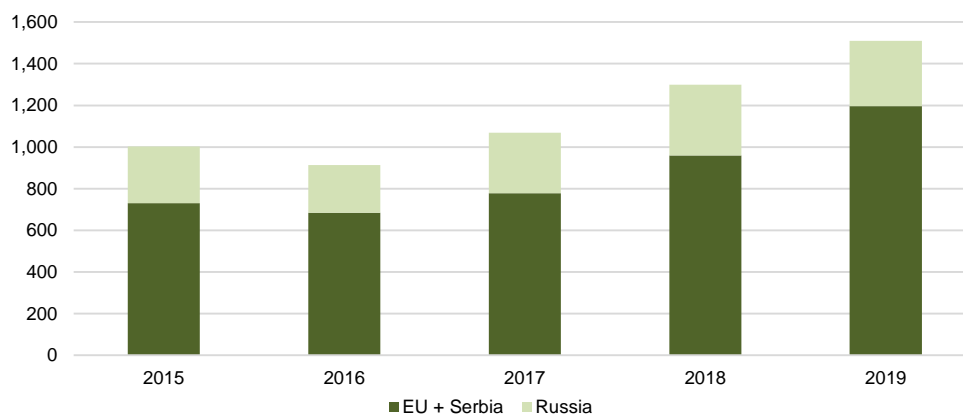
Low liquidity. With a market capitalisation of EUR 72m and a 3M average traded daily value of EUR 30k, the stock might be difficult for larger investors to trade.

Strong pipeline ahead, but too many uncertainties remain

Quickly growing supplier for the automotive business, until the pandemic hit

AD Plastik is an auto parts manufacturer, producing mainly interior and exterior plastic car components. The company has been present in the business for almost three decades, but traces its roots back to 1952. Over the years, AD Plastik has grown its exposure to 20 countries in five continents, with subsidiaries in five countries. The company has dozens of short- and long-term agreements with many major automotive companies and a strong pipeline of future deals ahead. In the past five years, AD Plastik has managed to secure deals with international partners, valued at almost EUR 700m, driving its revenues and net profit to record levels last year. Despite the accelerating capex in recent years, the company has also kept on increasing its dividend payout, yielding almost 7% last year. Then, early this year, the COVID-19 pandemic arrived in full force, disrupting the automotive market at an unprecedented level.

Growing sales on new deals signed (HRK m)



Source: Company data, WOOD Research

COVID-19 impact: revenue plunge inevitable but the crisis managed perfectly so far

Given the full or partial shutdown of the consumers' plants between March and May, AD Plastik also had to stop production temporarily. Due to this, revenues dropped by 49% and 23% yoy in 2Q20 and 1H20, respectively, and the full-year figure also looks weak, down 23% yoy, on our estimates. Despite the difficult conditions in the market, AD Plastik has managed the crisis well so far, accumulating enough cash, using government aid, which helped to offset the significant drop in profitability, and sustaining its operations, in line with the demand from its customers. After distributing HRK 4/share in March, AD Plastik has omitted a dividend for the second part of the year, to stay on the safe side, while being eligible for the COVID-19 aid. On our numbers, we still see the 2020E EBITDA at HRK 138m (-30% yoy) and the bottom line should be positive as well, at HRK 31m (-69% yoy). The company does not see much risk of changes in the deal pipeline, based on the information it has. Some contracts might be delayed for a matter of months, which we believe is in the price already. However, we note that the final revenue realisation will depend on consumers and there might be a downside risk for the total value of the deals, given the weak outlook for the sector. We try to reflect this in our revenue estimates.

As part of the COVID-19 state aid, AD Plastik used programmes in all of the countries in which it operates, apart from Russia and Slovenia, leading to a HRK 30m boost in its EBITDA so far. In Croatia, AD Plastik received HRK 29m in grants to preserve jobs, followed by aid of HRK 1.2m in Hungary and HRK 1.1m in Serbia. In Croatia, a moratorium on debt has also allowed the parent company to delay interest payments until September.

New deals sealed, despite the pandemic, but the customer is king

The outlook for the automotive industry was weak already at the beginning of this year. With the COVID-19 pandemic causing the shutdowns of plants and a fall in consumer confidence, the number of cars produced and sold is down ytd in double digits, which is also seen in the company's top line. Despite the headwinds, AD Plastik has managed to secure more deals for its already busy pipeline. In 1Q20, deals worth EUR 22.4m were signed with Renault-Nissan-AvtoVAZ for Russia, while EUR 9.4m was sealed with the PSA Group for Europe. Additionally, in 2Q20, the company closed a EUR 58m deal with AvtoVAZ for a new Lada Niva model and EUR 3m for the Nissan Qashqai. Therefore, in 1H20, AD Plastik managed to secure EUR 93m for its pipeline, after the EUR 215m sealed in 2019, EUR 137m in 2018 and EUR 151m in 2017. While the pipeline additions certainly look encouraging, the demand weakness will be seen for years. We do not expect AD Plastik's revenues to return to last year's level until 2023E,

as the final offtake will depend largely on demand, rather than on the value of the deals secured recently, in our view. That said, we look forward to positive surprises.

Recent deals sealed

| EUR m | Europe | Russia | Total |
|-------|--------|--------|-------|
| 2016 | 93 | 8 | 101 |
| 2017 | 134 | 17 | 151 |
| 2018 | 111 | 26 | 137 |
| 2019 | 57 | 158 | 215 |
| 2020 | 9.4 | 83.1 | 92.5 |

Source: Company data, WOOD Research

Contracts – a busy pipeline for the foreseeable future

The softer demand in Europe in recent years has not affected the company's persistent growth. AD Plastik managed to overperform the European market and delivered solid results in Russia as well. Despite the current crisis, the company's pipeline ahead looks strong, with more deals signed both last and this year, and many starting this year.

In 2019, the main revenue drivers were the start of production of the Ford Puma and the Clio V, and the redesigned Smart and Twingo models (amounting to EUR 367m in total). This year, the revenue will be supported by diverse sources from deals with PSA, Fiat, VW and Renault. In 2021E, new deals with PSA start, in 4Q21E (EUR 8m). In 2022E, a EUR 98m contract for Logan and Sandero starts in 3Q22E, expected to last for eight years. The last ones in the pipeline are the Lada Granta in 1Q23E (EUR 71m, an eight-year contract) and the redesigned Lada Niva, planned for 4Q23E (EUR 58m), with an expected length of 10 years. We appreciate the company's growing pipeline in Russia, which we see as a much more prospective market than the EU market for the long term. Nonetheless, the deals with its partners in the EU will still generate most of the revenues in the coming years and the renewal of the agreements or new deals with the EU partners are crucial for future revenue growth.

Recent and upcoming projects

| | Europe | | Russia | |
|------|---------------|-------------|----------------|-------------|
| | Partner/Brand | Size, EUR m | Partner/Brand | Size, EUR m |
| 1Q19 | Ford Mondeo | 2 | | |
| 2Q19 | Twingo | 100 | | |
| 2Q19 | Clio V | 160 | | |
| 2Q19 | Hella | 5 | | |
| 3Q19 | PSA | 10 | Logan, Sandero | 8 |
| 4Q19 | PSA | 20 | | |
| 4Q19 | Smart 4S | 27 | | |
| 4Q19 | Puma | 80 | | |
| 1Q20 | Jeep | 7 | VW, Škoda | 25 |
| 2Q20 | PSA | 33 | | |
| 2Q20 | Renault | 2 | | |
| 3Q20 | Fiat | 14 | | |
| 4Q20 | | | VW, Škoda | 11 |
| 4Q21 | PSA | 8 | | |
| 3Q22 | | | Logan, Sandero | 98 |
| 1Q23 | | | Lada Granta | 71 |
| 4Q23 | | | Lada Niva | 58 |

Source: AD Plastik, WOOD Research

Euro APS: important dividend cash cow, with no debt

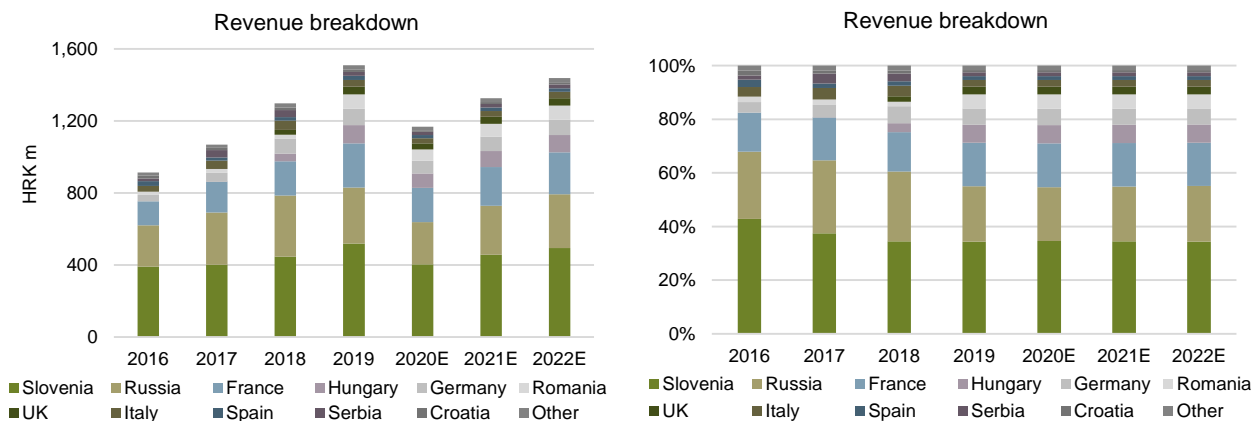
Romanian Euro APS (EAPS) is a 50/50 joint venture between AD Plastik and Faurecia, consolidated under Faurecia, a global auto parts manufacturer. The company has no debt, maintains a solid cash position and generates a significant cash dividend for AD Plastik. The company is much more profitable than AD Plastik, thanks to its higher utilisation and a focus on fewer products. EAPS' sole customer is Renault's Dacia unit in Mioveni, which has been extremely successful over the past decade, thanks mainly to rising exports, to Western Europe, but also elsewhere. In 2019, the plant produced 350k units (Sandero, Longan, Duster). In our revenue estimates, we reflect a drop in demand for Dacia sales (41% ytd in Europe and the 1H20 revenues down 46% yoy), leading to a 28% fall in revenues this year, before rising again, by 18% yoy in 2021E. This year, AD Plastik received its first dividend from EAPS (HRK 20m). We do not expect more cash to come this year, given the difficult market situation, but EAPS could still pay out, thanks to its strong balance sheet, leading to more upside for our estimates. Next year and going forward, we expect a 100% payout from the JV's profit, which we expect to bounce back to a 9% profit margin in the long term. We value EAPS separately, via a DCF method (please see our valuation section). On our estimates, EAPS represents more than one-third of AD Plastik's NAV.

Financial forecasts

2019 – a record year, followed by a record plunge in 2020E, but growth should re-emerge

In 2019, revenues grew by 17% yoy, to HRK 1.5bn, driven by the EU+Serbia, at 25% yoy growth, which more than offset the 8% decline in Russia. The European growth came on the back of the new Clio and Ford Puma, and the redesigned Smart and Twingo models, while Tisza's revenue growth also supported the top line. The Russian market had a very strong base in 2018 and the overall market fell slightly in 2019. The revenue uptake also resulted in higher EBITDA in 2019, up by 22% yoy, at a solid 13% margin for the group.

Revenue estimates by geography

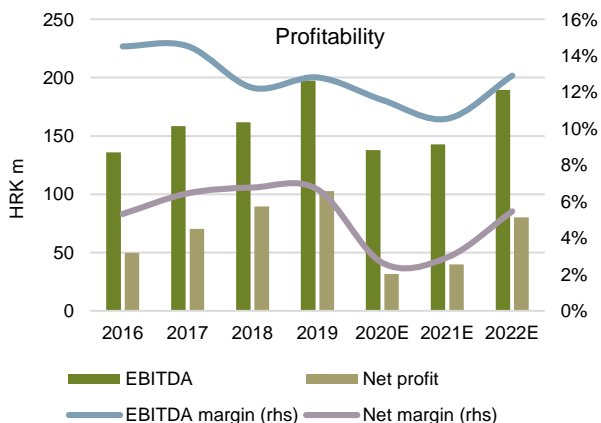


Source: Company data, WOOD Research

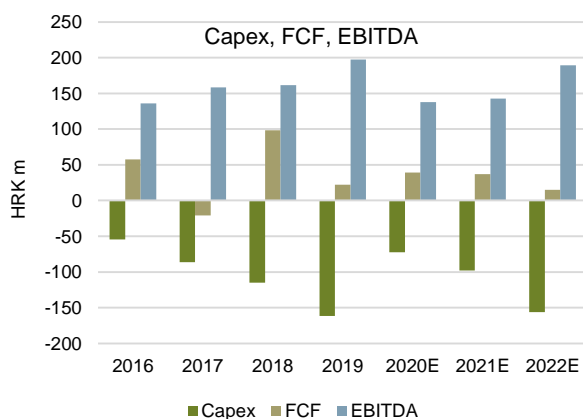
It is no surprise, this year, that the company is facing falling sales and profitability on all fronts. Its 1H20 revenue fell 23% yoy, with the 2Q20 figure down 49% yoy, due mainly to the shutdowns. In 1H20, the EBITDA margin remained quite strong, at 14%. This is, however, partially on the back of the state aid. For 2020E, we expect a 23% yoy revenue drop, outperforming the expected fall for the entire market slightly, with European registrations down 33% and the Russia revenue down 12% ytd, as of August. On our numbers, this should lead to EBITDA of HRK 138m (-30% yoy, at an 12% margin) in 2020E. FX losses on the EUR-denominated debt, due to the weaker HRK and RUB, and a lower contribution from EAPS will also drag on the bottom line, which we model at HRK 31m (-69% yoy) for 2020E. The one-off HRK 11m profit booked on the Makarska real estate sale and the government aid should help the group's net profit to stay above water, in our view.

Next year, with the demand returning partially and revenues from the recent contracts supporting the top line, we pencil in 14% revenue and 4% EBITDA growth, yielding an 11% EBITDA margin. We see the EBITDA margin as close to this year's level due to the 2019 base, which was boosted by state aid of some HRK 30m and the HRK 11m Makarska sale. Going forward, we expect revenues to return to the 2019 levels in 2023E, with an EBITDA margin of 13%, supported mainly by higher utilisation. For 2020-24E, we model a revenue CAGR of 5%. Our 2021-24E revenue estimates are based on both the company's comments and deals signed, as well as the overall outlook for European and Russian passenger sales, described in the section below.

Margins to return with revenue growth



Capex to speed up, with new deliveries in 2022-23E



Source: Company data, WOOD Research

Capex to slow down this year, before rising on new deliveries in 2022E and 2023E

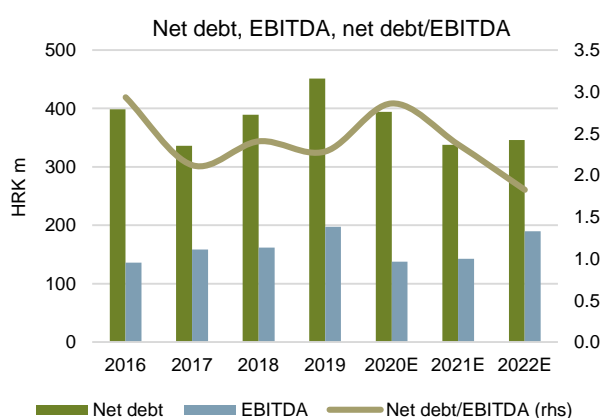
After a record year in 2019, with HRK 162m spent (+41% yoy), this year's capex is seen as considerably lower, at HRK 72m, on our numbers. This is driven by both the pandemic, which has hit the company's cash flow, but also strong investments last year for new product deliveries both last and this year. In 1H20, AD Plastik invested only HRK 25m, down 70% yoy. Despite the lower capex, AD Plastik has continued to work on large projects for timely delivery to its customers. The company sees higher capex in the second part of the year and in 2021E yoy, with more new deliveries coming in 2022-23E. We model capex of HRK 98m in 2021E and HRK 156m in 2022E, before falling to HRK 136m in 2023E. The hike in capex is connected mainly to the Lada, Sandero and Logan deals, with the project development phase for a new product usually starting 1-1.5 years before delivery. After 2023E, we model maintenance capex of around HRK 110m, but we could be surprised on the upside here, with the cost measures implemented this year already.

Debt and free cash flow under control, dividend to return

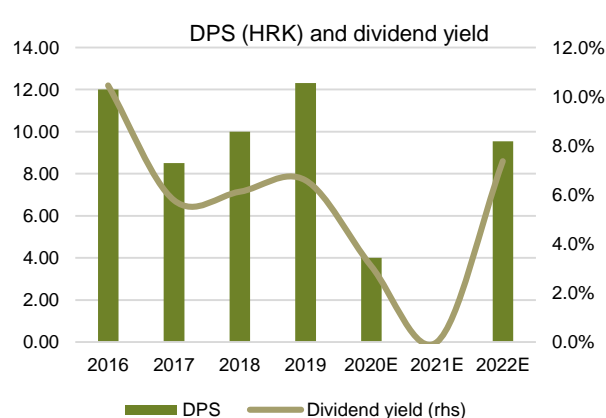
In 2018, AD Plastik acquired Tisza, which was followed by heavy capex in 2018 and 2019. This led to a gradual increase in its net debt, growing from HRK 336m in 2017 to HRK 451m in 2019. This year, despite the pandemic and the expected drop in the operating cash flow, the company has managed to reduce its net debt position, from HRK 389m as at end-1Q20 to HRK 362m as at end-1H20, and does not expect it to rise by the year-end. We expect slightly higher net debt by the end of 2020E vs. 1H20, at HRK 394m. Given the EBITDA drop this year and despite lower investments, the net debt/EBITDA will rise, to 2.9x by end-2020E, on our numbers. This still is a comfortable level, in our view, compared to the leverage of other European suppliers, and should be seen as a one-off, due to the pandemic. With improving EBITDA in the coming years, we expect the ratio to fall to 1.8x by end-2022E, despite the higher capex and a return to paying dividend.

In the first part of the year, the cash generation was supported by government aid, boosting the EBITDA by some HRK 30m. To support its liquidity, AD Plastik also sold its Makarska real estate portfolio (former plant), for HRK 24m, in 1Q20. With its capex at HRK 72m for this year and with revenues improving slightly in 2H20E, we still expect positive free cash flow by the year-end, at HRK 39m. This would normally allow AD Plastik to continue with its dividend distribution, but the dividend has been omitted for the second part of the year. The first reason is the state aid, which would have to be returned, in part, if a dividend is paid out; and the second is the ongoing risk for the business, which is out of the company's control currently. We expect AD Plastik to return to paying a dividend in 2022E (from the 2021E profit), but we note that the company could pay out a dividend even next year, based on our numbers, but would then have to return part of the COVID-19 aid (c.HRK 11m).

Net debt/EBITDA to fall, with EBITDA growth revived



No dividend expected next year, 2020 paid already



Source: Company data, WOOD Research

M&A not the theme now

The HRK 70m acquisition of Tisza in 2018 was the last expansion for AD Plastik. Through this Hungarian subsidiary, AD Plastik brought in new partners, namely Suzuki, Bentley and SMA, and strengthened its relation with VW. Tisza focuses mainly on injection and blow molding. The company has contributed to AD Plastik's revenue growth but, so far, has diluted the group's EBITDA margin, with its capacity under the group's level. Tisza is still awaiting a major deal to help boost its margins. According to the best of our knowledge, and also considering its stable financial condition, we do not expect AD Plastik to boost its cash flow by making more divestitures. On the opposite side, inorganic growth can also be ruled out now, in our view.

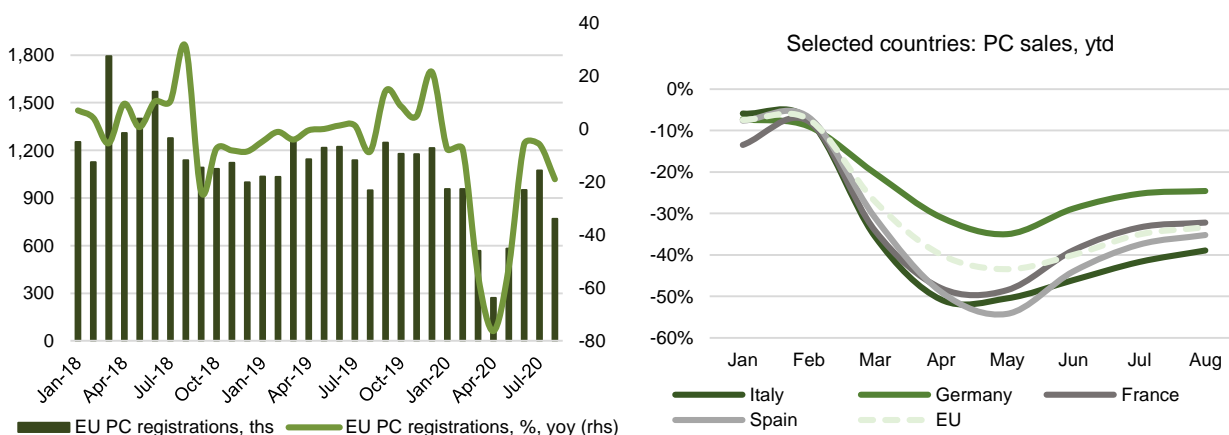
Automotive market might have seen the worst already

The auto parts industry is facing an unprecedented crisis currently, not comparable to any other in the past. With most of its customers shutting down their production fully or partially for several weeks or even months, lower utilisation in the following months, weaker demand both ytd and expected in the foreseeable future, the segment is one of the most affected by the pandemic. In Europe, where AD Plastik generates 79% of its revenues (2019), the automotive sector is one of the largest employers and a major source of exports revenue. According to ACEA, in 2019, the sector employed 13.8m people (6.1% of all EU jobs), producing almost 20m cars (20% of global output), with a EUR 84bn trade surplus from 5.6m exported vehicles. The registrations of passenger cars in Europe stood at 15.3m, or 20% of global demand. AD Plastik has been of the winners of moving production from west to east, which has been reflected in the company's growth. That said, despite adding more contracts to its pipeline in Russia, AD Plastik is still heavily exposed to Europe, which, compared to other developing regions, Russia included, faces much weaker future demand for passenger cars.

European passenger car registrations down 33% ytd

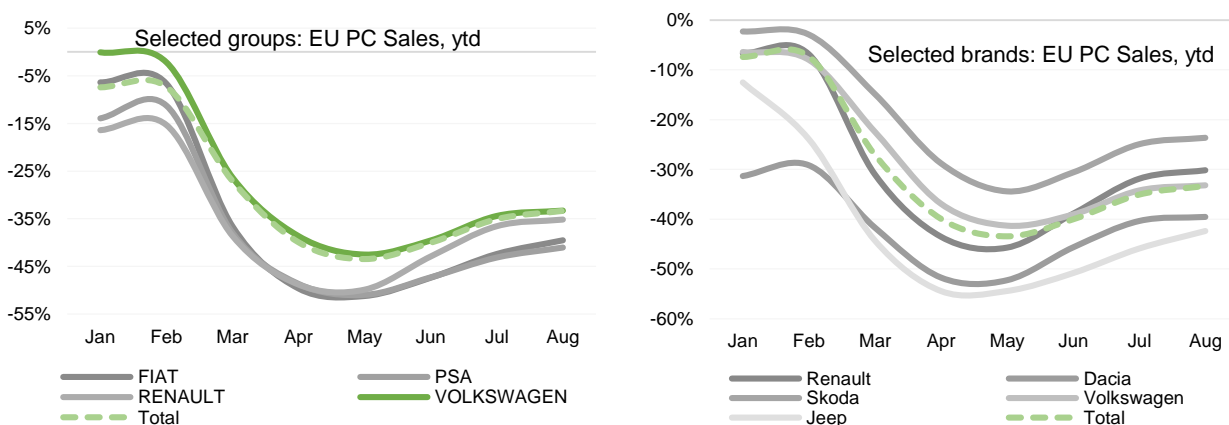
In 2019, EU passenger car sales ended up at 1.1% yoy growth, supported largely by changes in taxation coming in this year, which boosted the sales in 4Q19, resulting in very strong growth of 22% in December. 2019 marked the sixth year of consecutive growth for the EU market, but the 2020E outlook for the sector was weak in December already (a 2% yoy decline expected by ACEA in January) and, as expected, the first two months were weak (both -7% yoy). Then the pandemic hit, leading to the March drop of 55% yoy. As of August, the ytd sales are down 33%, despite the plants coming back into operation, taking the total number of newly registered cars to 6.1m. The 19% yoy drop in August followed the slightly better July, with a 6% yoy drop. The worst month was April, with a 76% yoy drop.

With the weak August, European PC registrations are down 33% ytd, with weaker figures in southern Europe



Source: ACEA, WOOD Research

AD Plastik's partners underperform the sector on ytd new registrations



Source: ACEA, WOOD Research

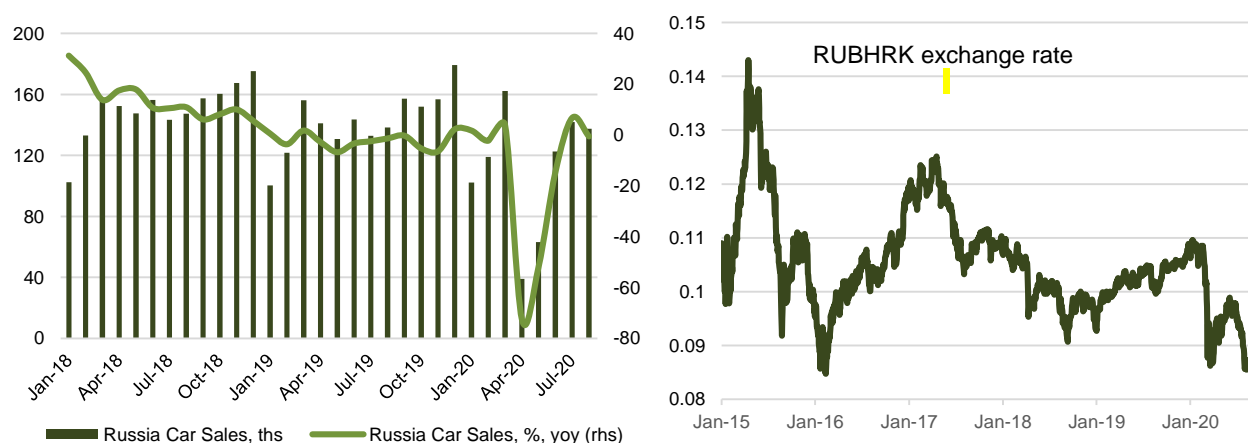
The car registration figures in Europe do not look supportive for AD Plastik, with most of the southern states underperforming the average (Italy down 39% ytd) and France in line with the average drop, at 32%. Looking at the groups' results, the sales of AD Plastik's partners do not look any better. As of

August, Renault's sales are down 35% ytd, Fiat -39% ytd, while Volkswagen is at -33% ytd. Ford and PSA also look weak, both at -41% ytd. It is important to note that AD Plastik is exposed to brands that usually perform worse than the premium brands amid demand contractions caused by a weaker economy.

Russia's demand outperforms the EU and also looks more attractive in the long term

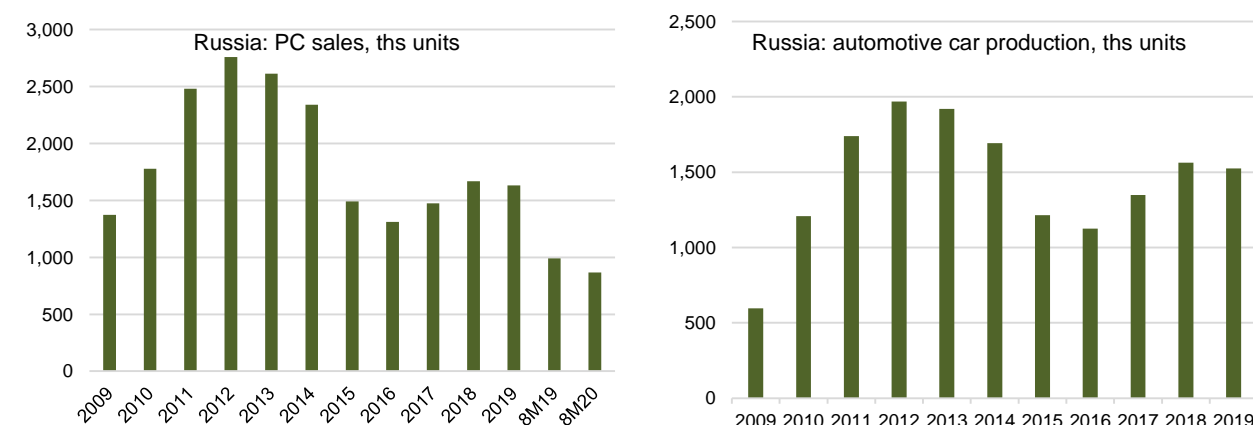
In 2019, Russia's passenger vehicle market fell 2% yoy, after slowing down in the second part of the year. Sales showed the opposite trend than in Europe in the first quarter, growing 16% yoy. This was, however, partly a function of the RUB depreciation, which forced consumers to speed up sales before the price adjustments, in our view. Passenger car sales dropped significantly in 2Q20, but less than in Europe, by 44% yoy, before making a surprising recovery in June, with 8% yoy growth. As of August, passenger cars sales are down 12% ytd, strongly outperforming the EU market, also thanks to the local stimulus programme, we believe. AD Plastik's brand exposure shows slightly lower sales figures than the average decline ytd, with premium brands being slightly negative or flat ytd. In 8M20, Lada was down 18% (Granta at -14% and Logan at -16% ytd), Renault -16% (Sandero at -15% and Logan at -17% ytd), but Škoda grew 10% ytd, with a very strong contribution from Škoda Rapid, and Volkswagen has dropped by only 3% so far, with its Polo up 60% ytd and the Tiguan at +6%. In Russia, the company's revenue is adjusted on a quarterly basis to reflect the RUB movements vs. the EUR. This serves as a natural hedge for AD Plastik. In 2015, the quarterly adjustments were done on a monthly basis, given the FX volatility.

Russian PC market is in better shape than the EU, but weak RUB could hit local demand



Source: WOOD Research, AEB, Bloomberg

Russia's automotive market takes a hit after the sanctions, but has started to recover in the past few years



Source: Bloomberg, OICA, WOOD Research

The shape of the recovery still hard to call

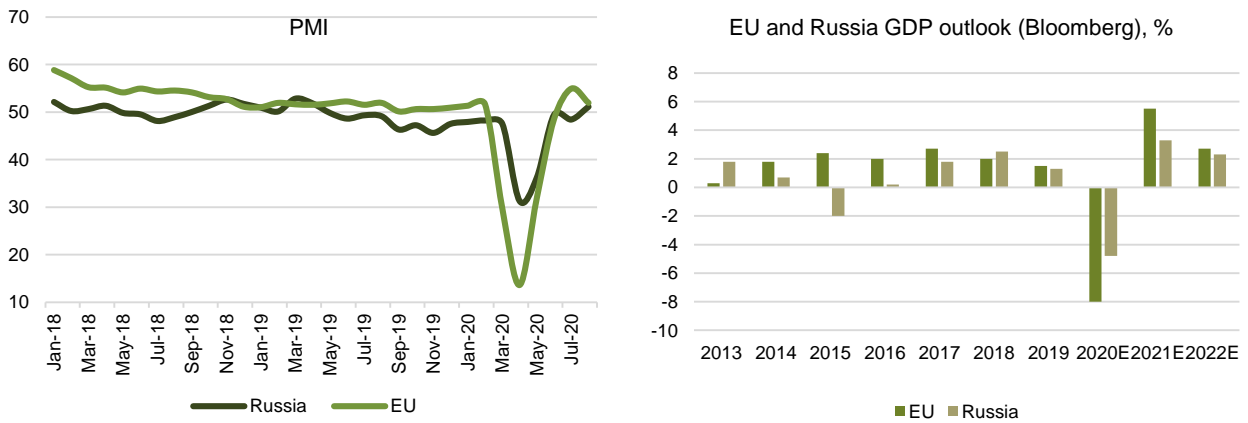
What is yet to be seen is the form of the recovery in 2021E and thereafter. All countries have provided stimulus packages for the industry, but a major package to incentivise consumer spending is still awaiting policy makers' decisions. The various packages (Austria, Italy, France, Germany and Spain) focus mostly on subsidies for electric vehicles; however, in our view, to revive the industry, governments might have to introduce broader car-scrapping incentives to boost all vehicle sales, to support the producers,

which are still relying mostly on combustion engines. We note that this is a different crisis to the one in 2009 or the European banking crisis, which started in 2010. The GDP plunge is much more pronounced and, this time, the drop in demand is global, with exports expected to be hit as well, opposed to the banking crisis, where exports supported the producers. We also cannot rule out a second round of lockdowns, or much weaker economic growth next year than expected currently.

Even with less than four months to go, the estimates for this year's plunge vary across the board. ACEA's estimate of a 25% drop in passenger car registrations this year seems reasonable at this point, in our view, although a second wave of the pandemic, apparent in many countries already, could push this figure even lower. The August figure was quite weak and, currently, it seems that there is more downside than upside risk for ACEA's estimate, in our view. Its estimate is also broadly in line with most producers' full-year guidance and the consultants' reports on the automotive industry. The 25% drop would take down passenger car sales to the level seen in 2013, which ended the six years of consecutive declines after the 2008-09 crisis. In 2020-24E, we model a 5% CAGR for the European revenues.

The estimates for the Russian market vary but, despite the RUB weakness, the figures, so far, look surprisingly strong and much better than the estimates in the first part of the year. Until the pandemic, the Russian market had been performing well. After several years of declines, over 2013-16, due to the macroeconomic crisis related to the Ukraine sanctions, the market started to recover in 2017, rising in double digits every year until 2019, when it fell by 2%. Overall, we see a 7% CAGR for 2020-24E for the Russian revenues, as the market is still lagging behind the EU in terms of passenger cars per capita and given the contracts secured recently.

Manufacturing and GDP taking a hit; Russia's GDP drop much lower than the EU in 2020E



Source: Bloomberg, Bloomberg consensus, WOOD Research

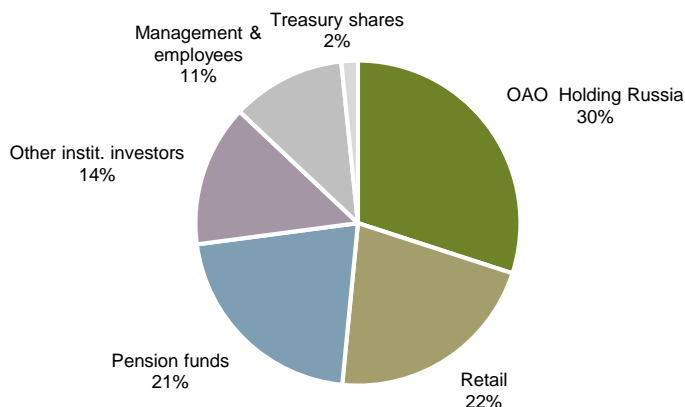
Company overview

AD Plastik was set up in 1994, but traces its roots back to 1952. In the past three decades, AD Plastik has focused mainly on the development and production of interior and exterior car components in Croatia and Eastern Europe, supplying its products to global automobile producers. The company is based in Croatia's Solin. In 2019, AD Plastik generated a record net profit of EUR 13m on EBITDA of EUR 26m and revenues of EUR 204m.

Shareholder structure

The largest shareholder, with a 30% stake, is OAO Holding, followed by retail (22%), pension funds (21%) and other institutional investors (14%). Management and employees hold a significant portion of the company's shares (11%), while 2% of the shares are held by the company. The free float is 67%. OAO Holding, a Russian investment fund with a broad portfolio of assets, entered the company in 2007.

Shareholder structure



Source: Company data, WOOD Research

Company structure

AD Plastik Group is the parent company under which six subsidiaries are consolidated: one in Croatia, two in Russia, and one in each of Serbia, Slovenia and Hungary. AD Plastik also holds a 50% share in a Romanian JV, Euro APS, with partner Faurecia, which is the operator and which consolidates EAPS.

AD Plastik: company structure



Source: Company data

Operations

In Croatia, the Zagreb plant specialises mainly in parts for Renault's Slovenian plant in Revoz (Clio, Twingo and Smart). The Solin plant in Croatia is engaged in smaller plastic parts manufacturing. In Russia, AD Plastik has two production sites, in Kaluga and Samara, supplying the local market. In Serbia, AD Plastik has a Mladenovac plant, whose main customers are Fiat and Renault. Lastly, Hungarian Tisza supplies mainly Suzuki, Bentley and VW, focusing on injection and blow molding. EAPS, in Romania, supplies Dacia.

Financials

Income statement

| HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|------------------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 936 | 1,090 | 1,321 | 1,542 | 1,192 | 1,354 | 1,468 |
| Cost of Raw Materials | -26 | -61 | -103 | -171 | -114 | -131 | -147 |
| Cost of Goods Sold | -462 | -546 | -663 | -731 | -551 | -627 | -685 |
| Gross profit | 447 | 482 | 555 | 640 | 526 | 596 | 636 |
| Operating expenses | -312 | -324 | -393 | -443 | -388 | -453 | -447 |
| EBITDA | 136 | 158 | 162 | 197 | 138 | 143 | 189 |
| Depreciation | -77 | -83 | -91 | -110 | -104 | -108 | -110 |
| EBIT | 59 | 75 | 71 | 87 | 34 | 34 | 79 |
| Profit from Associates | 43 | 56 | 50 | 41 | 14 | 22 | 24 |
| Net financial income | -53 | -52 | -34 | -14 | -16 | -12 | -14 |
| Profit Before Tax | 49 | 79 | 87 | 114 | 33 | 44 | 89 |
| Taxes | 1 | -9 | 3 | -11 | -2 | -4 | -9 |
| Net Income | 50 | 70 | 89 | 103 | 31 | 40 | 80 |

Source: Company data, WOOD Research

Balance sheet

| HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Assets | 930 | 919 | 1,002 | 1,088 | 1,105 | 1,132 | 1,138 |
| Intangible assets | 119 | 105 | 111 | 105 | 98 | 141 | 136 |
| Property, plant and equipment | 700 | 650 | 709 | 787 | 809 | 790 | 798 |
| Investments in associates | 83 | 97 | 92 | 93 | 94 | 96 | 99 |
| Other | 28 | 67 | 90 | 104 | 105 | 105 | 105 |
| Current Assets | 410 | 433 | 565 | 596 | 581 | 638 | 671 |
| Inventories | 108 | 155 | 231 | 207 | 187 | 174 | 193 |
| Trade receivables | 133 | 199 | 219 | 270 | 262 | 244 | 271 |
| Cash and cash equivalents | 10 | 10 | 36 | 27 | 41 | 129 | 113 |
| Other | 160 | 69 | 79 | 92 | 91 | 91 | 94 |
| Total assets | 1,341 | 1,351 | 1,567 | 1,685 | 1,687 | 1,770 | 1,809 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current Liabilities | 454 | 394 | 501 | 576 | 593 | 647 | 645 |
| Short Term Borrowing | 223 | 142 | 148 | 232 | 219 | 260 | 253 |
| Payables | 144 | 173 | 224 | 237 | 243 | 227 | 251 |
| Other | 87 | 79 | 129 | 106 | 130 | 160 | 142 |
| LT Liabilities | 833 | 810 | 1,064 | 1,075 | 1,033 | 1,067 | 1,065 |
| LT Loans | 186 | 204 | 278 | 238 | 208 | 198 | 198 |
| Other LT liabilities | 4 | 4 | 4 | 12 | 12 | 12 | 12 |
| Total Liabilities | 643 | 602 | 783 | 825 | 813 | 857 | 855 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholders' Equity | 697 | 750 | 784 | 859 | 874 | 913 | 953 |
| Total Liabilities and Equity | 1,341 | 1,351 | 1,567 | 1,685 | 1,687 | 1,770 | 1,809 |
| Net debt | 398 | 336 | 389 | 451 | 394 | 338 | 346 |

Source: Company data, WOOD Research

Cash flow statement

| HRK m | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|---------------------------------|-------------|------------|-------------|-------------|------------|------------|------------|
| CF from Operations | 99 | 75 | 157 | 120 | 87 | 100 | 126 |
| Thereof depreciation | 77 | 83 | 91 | 110 | 104 | 108 | 110 |
| Thereof changes in w/c | -15 | -88 | 33 | -29 | -23 | -13 | -19 |
| CF from Investments | 2 | 23 | -117 | -107 | -14 | -44 | -94 |
| Thereof CAPEX | -54 | -86 | -115 | -162 | -72 | -98 | -156 |
| Thereof Dividends Received | 46 | 42 | 54 | 40 | 20 | 14 | 22 |
| CF from Financing | -103 | -99 | -14 | -22 | -60 | 31 | -48 |
| Thereof Dividends Paid | -50 | -35 | -41 | -52 | -17 | 0 | -40 |
| Thereof Net Proceeds From Loans | -50 | -60 | 39 | 40 | -43 | 31 | -8 |
| Cash Movement | -2 | 0 | 26 | -9 | 14 | 87 | -16 |

Source: Company data, WOOD Research

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|------------|-------------------------------|------------|---------|
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CONTACTS

Czech Republic

namesti republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
WUCO

www.wood.com

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

EMEA TMT & Industrials/Turkey

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Financials/Turkey

Can Demir
+44 20 3530 0623
can.demir@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Russia & CIS Region

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Poland/TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Russia

Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Romania

Stefan Lungu
+44 203 530 0694
stefan.lungu@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

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