IC COMPANY ANALYSIS - AD Plastik Group

InterCapital Research

Automotive components

January 5th 2015

European growth should be enough to offset Russian weakness

(HRK000)	2013	2014 F	2015 F	2016 F	2017 F
Adjusted sales	1,356,502	1,279,297	1,563,760	1,691,501	1,667,136
Adjusted EBITDA	148,402	150,008	192,802	208,196	203,413
Adjusted EBIT	79,952	80,406	117,404	132,859	127,998
Net income	27,660	4,069	69,928	80,007	72,717
EpS (HRK)	6.6	1.0	16.7	19.1	17.3
Adjusted EBITDA margin	10.8%	11.5%	12.2%	12.2%	12.1%
Adjusted profit margin	2.0%	0.3%	4.4%	4.7%	4.3%
P / E*	14.4	98.0	5.7	5.0	5.5
Adjusted P / S*	0.3	0.3	0.3	0.2	0.2
Adjusted EV / S*	0.7	0.7	0.6	0.5	0.5
Adjusted EV / EBITDA*	6.2	5.9	4.5	4.2	4.2

* Multiples and ratios are based on the market price as of 2 January 2014

AD Plastik is an export-oriented plastic automotive components manufacturer with an established local presence in Russia and both Western and Eastern Europe. The company is a solid dividend player required to pay out 50% of parent company profit (should be largely boosted by the Edison project in 2015). Given the volatile nature of the auto industry, it is worth noting that components manufacturers have historically yielded strong median total returns (capital gains + cash flow distribution) compared to other sectors, despite larger short-term fluctuations.

From being a key growth propeller in previous years, when the European markets encountered serious struggles, Russia has become a major headwind for AD Plastik amid rouble depreciation and sharp economic slowdown.

Up to recently, we were rather optimistic on AD Plastik's chances of improving its performance next year on the back of general automobile demand growth in Europe and, most importantly, Edison project. However, the massive rouble decline surprised us all and definitely undermined the outlook. Nevertheless, with the rouble somewhat stabilized in the last week or two, 2015 outlook for Renault and consequently AD Plastik might not be quite so gloomy.

The key growth driver for AD Plastik in Europe is the Edison project. The project is a cooperation between Renault and Daimler on development of the new Twingo and Smart.

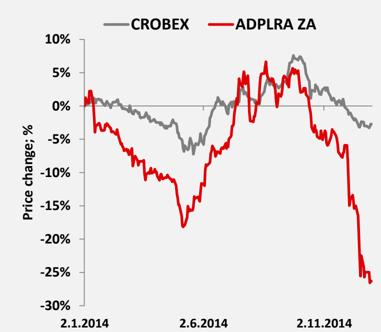
By summing up the three standalone valuations **we have estimated the fundamental equity value of AD Plastik Group at HRK 442.8m which corresponds to HRK 110.02 per share**, offering upside in relation to the market price as of 2 January 2015 of 15.8%, **ultimately earning a BUY recommendation.** However, we do remain cautious and uncertain regarding the situation in Russia and therefore prepared to revise our valuation in case of major events, both upwards and downwards towards our bear and bull scenarios**.**

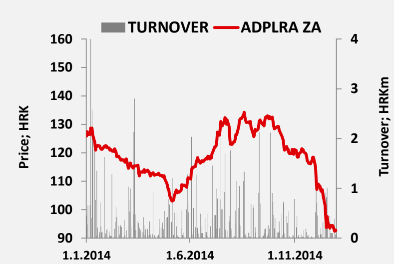
BUY

1 Y target price:	HRK 110.02
Price 2 Jan 2014:	HRK 94.99
Potential growth:	15.8%

GENERAL SHARE INFORMATION

Bloomberg ticker	ADPLRA ZA
Number of shares	4,199,584
Market capitalization (HRKm)	395.3
1Y high/low (HRK)	134.5 / 90.2
1Y average daily turnover (HRKm)	0.4
Free Float	58.5%
Index member	YES
Website	www.adplastik.hr

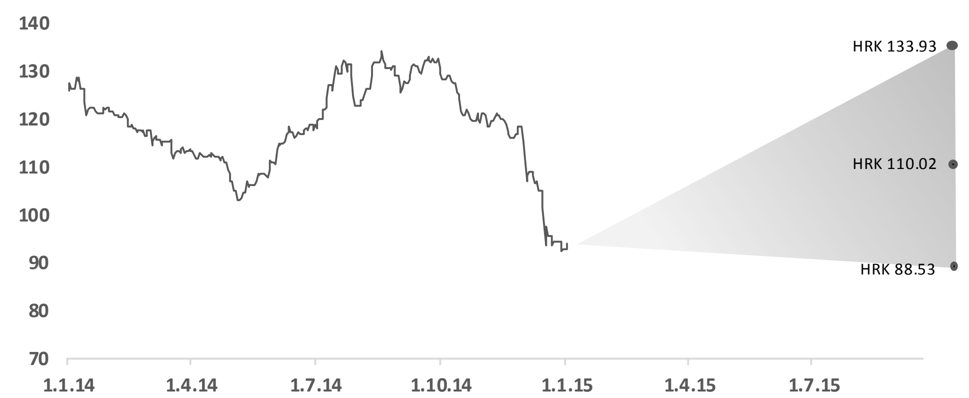




Kreso Vugrincic
Analyst
Tel. +385 1 4825 864
kreso.vugrincic@intercapital.hr

Valuation Snapshot: AD Plastik Group – BUY @ TP HRK 110.02

Exhibit 2 Development of share price



Source: InterCapital Research, Bloomberg

By summing up DCF and comparables valuations of AD Plastik Group we have derived a **BUY recommendation**

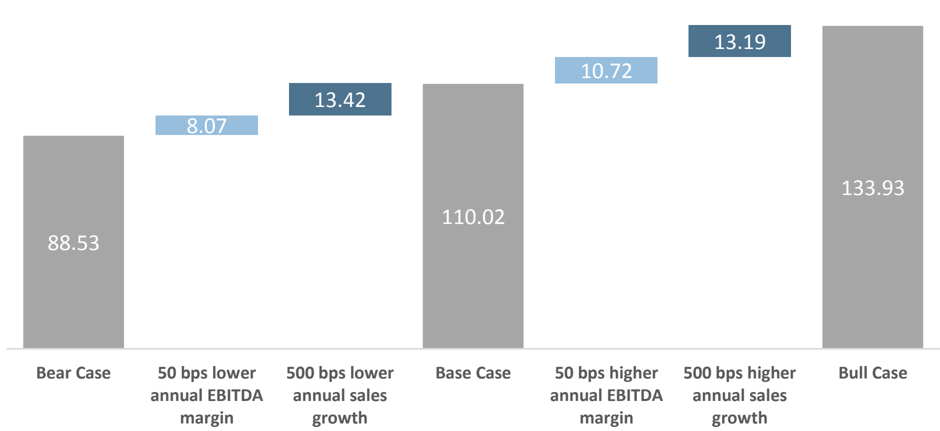
Exhibit 3 Scenario analysis

Target price HRK 110.02		Calcualted as weighted sum of comparables and DCF analysis
Bull Case HRK 133.93	DCF & Comparables	**Faster than expected recovery in Russia and accelerated growth in Europe:** - 500 bps higher annual sales growth increase - 50 bps higher annual EBITDA margin
Base Case HRK 110.02	DCF & Comparables	**The most likely scenario used to determine the final target price**
Bear Case HRK 88.53	DCF & Comparables	**Europe relapsing into recession coupled with additional Russian turmoil:** - 500 bps lower annual sales growth increase - 50 bps lower annual EBITDA margin

Source: InterCapital Research

If we change base case model assumptions AD Plastik Group's value per share ranges from HRK 88.53 to HRK 133.93

Exhibit 4 Bear to Bull scenario



Source: InterCapital Research

Risks to our model are further deterioration of conditions in Russia and Europe relapsing into another recession

Investment case

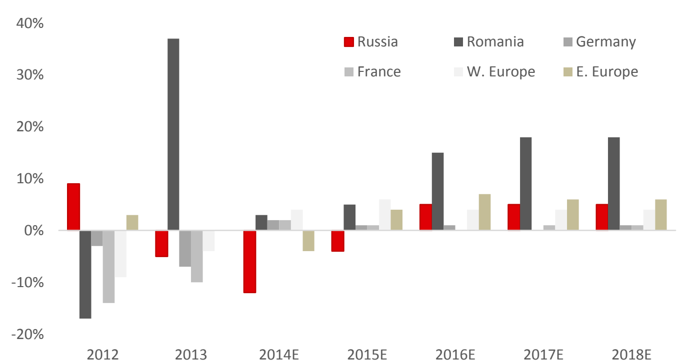
AD Plastik is an export-oriented plastic automotive components manufacturer with an established local presence in Russia and both Western and Eastern Europe. The company is a solid dividend player required to pay out 50% of parent company profit (should be largely boosted by the Edison project in 2015). Given the volatile nature of the auto industry, it is worth noting that components manufacturers have historically yielded strong median total returns (capital gains + cash flow distribution) compared to other sectors, despite larger short-term fluctuations.

Base case scenario:
- Russia remains somewhat stable, albeit depressed
- Europe and Edison project lead sales growth on expected demand and historical margins

Upside potential:
- Russia recovers faster than expected and exchange rate differences reverse
- Europe embarks on a faster recovery path, while interest rates remain low
- Edison project exceeds projected demand

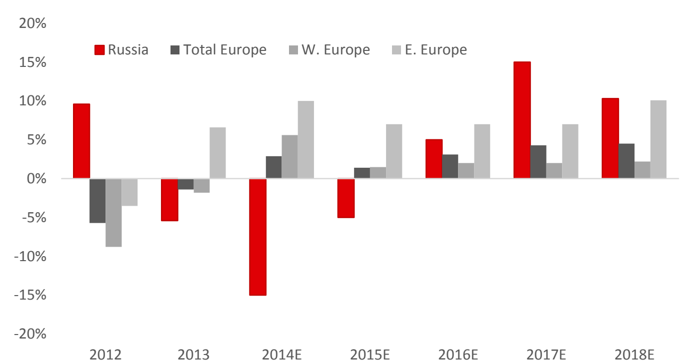
Downside risks:
- Conditions in Russia continue to deteriorate with additional rouble depreciation
- Europe relapses into recession
- Interest rates rise faster than the GDP recovers, leading to wobbly consumer confidence

Exhibit 5 Estimated car sales per region/country



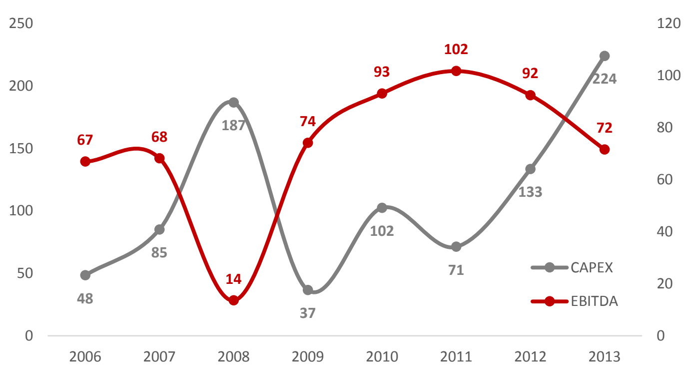
Source: Morgan Stanley Research

Exhibit 6 Estimated car sales per region/country



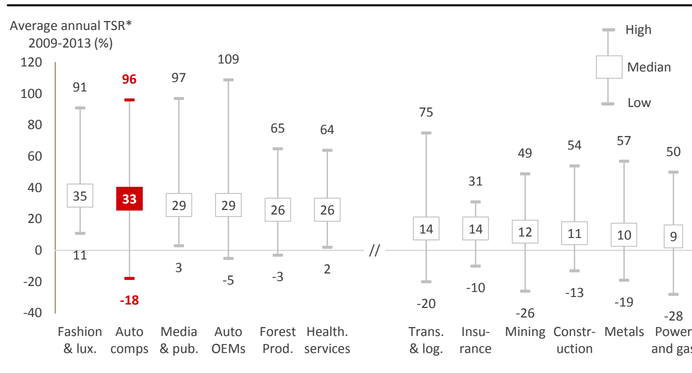
Source: Goldman Sachs Research

Exhibit 7 Cyclicity of the automotive market



Source: AD Plastik

Exhibit 8 Total shareholder return vs. volatility



Source: S&P Capital IQ, BCG analysis

Key considerations regarding AD Plastik's operations

Key question	Market view	Our opinion
Russian woes	From being a key growth propeller in previous years, when the European markets encountered serious struggles, Russia has become a major headwind for AD Plastik amid rouble depreciation and sharp economic slowdown. Recent data in Russia continues to deteriorate, with Russia itself forecasting economic contraction in 2015. With that said, it seems likely that Russian 2015 car sales will continue to disappoint. The termination of a modest car scrappage scheme by the government in 2015 is another downward driver to 2015 forecasts.	With the rouble somewhat stabilized in the last week or two, 2015 outlook for Renault and consequently AD Plastik might not be quite so gloomy, although we remain very uncertain on the matter. In the long-run, a very low penetration rate for Russian car ownership relative to Western levels definitely provides tailwind for growth. However, short-term could prove to be much more volatile and dependent on current macro conditions. Also, as a response to the recent market conditions, AD Plastik has been implementing contracts that are adjusted quarterly (or more frequently if necessary) in relation to the exchange rate.
Weak European demand growth	A strong start to 2014 lost momentum during the third quarter, echoing a downward inflection in consumer confidence. The slow pace of decline in the unemployment rate supports expectations that European car market demand will show low digit growth in 2015. Beyond 2015, forecasts are mostly envisaging a modest recovery to trend growth, albeit at a still-depressed market level.	We feel that product momentum will play a fundamental role for Renault and Daimler thanks to the launch of new vehicles. The key growth driver for AD Plastik in Europe is the Edison project, for which a new paint shop was built. The project is a cooperation between Renault and Daimler on development of the new Twingo and Smart. AD Plastik is set to produce plastic car parts for both vehicles whose total production is expected at around 300k vehicles per year. In comparison, the 2013 production volume of the old Twingo model was around 85k.
Dependence on small number of buyers	AD Plastik is highly dependent on several key accounts, most notably Renault and its subsidiaries/associates Dacia, Nissan and Avtovaz. This usually creates pricing pressures for the supplier whose margins get squeezed over time unless it manages to generate operational savings.	On one hand, this has led AD Plastik to the current situation where its business results are largely impacted by the Russian economy and the rouble exchange rate. On the other hand, the long-lasting relationships with Renault and several other companies have allowed AD Plastik to develop and grow year over year. Also, According to JP Morgan, since the middle of the decade there has been a fundamental coordinated effort by the supplier industry to pass on raw material costs from the sub suppliers all the way to the OEMs. Meanwhile, the OEMs have been managing to offset these price increases by requesting additional efficiency cost savings and price reductions from suppliers.
Industry consolidation	There are four key actions that will drive further consolidation: 1. Develop and leverage global capability and scale 2. Establish and grow a strong presence in China, Russia and other emerging markets 3. Invest in future technology 4. Be savvy about strategic capacity growth	AD Plastik is feeling and is bound to become even more pressured by growing competition and industry consolidation. However, its local presence in Russia and a long-lasting relationship with Renault could even make it an interesting takeover target once the Russian market recovers and potentially returns to car sales growth seen in the last couple of years.
Indebtedness	AD Plastik is a relatively leveraged company with about, HRK 500m of net debt which creates pressures on the bottom line. The debt was historically used to finance the capex cycle, but questions can be raised why the company decides to continuously pay dividend (currently required by the parent company statute) instead of slightly deleveraging.	Despite a high level of financial debt, AD Plastik does not have trouble servicing it, as it generates a more than substantial cash flow, especially given its low average interest rate of around 5%. Also, the debt has to be observed taking into account the company's joint ventures whose profits are booked via equity method. Nevertheless, the received dividends can be used to repay interests on the outstanding debt of the parent company.

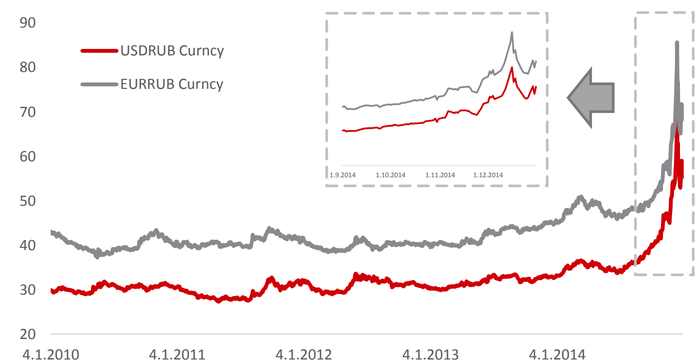
Source: InterCapital Research

Russia

From being a key growth propeller in previous years, when the European markets encountered serious struggles, Russia has become a major headwind for AD Plastik amid rouble depreciation and sharp economic slowdown.

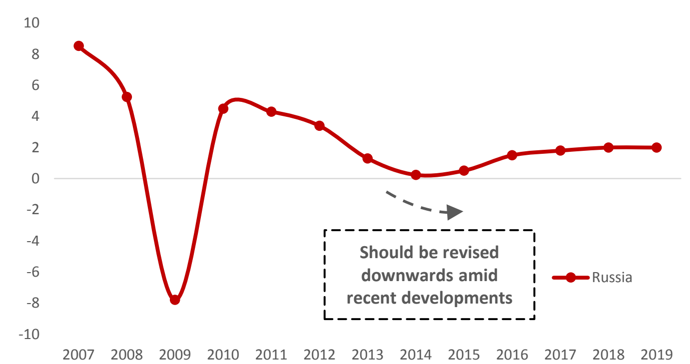
Up to recently, we were rather optimistic on AD Plastik's chances of improving its performance next year on the back of general automobile demand growth in Europe and, most importantly, Edison project. However, the massive rouble decline surprised us all and definitely undermined the outlook.

Exhibit 9 Rouble depreciation



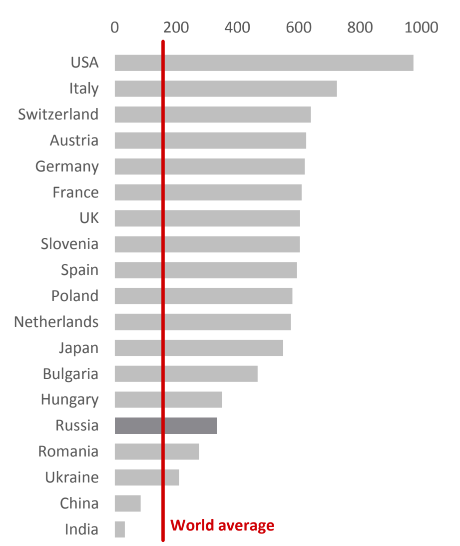
Source: Bloomberg

Exhibit 10 Historical and est. annual GDP growth rates



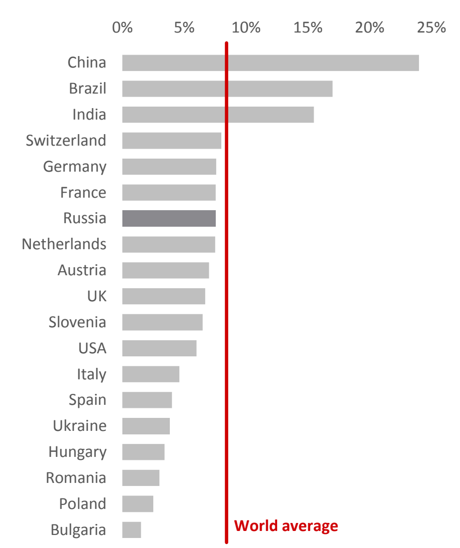
Source: IMF

Exhibit 11 Automotive ownership density (2013 - sales per 1,000 pop)



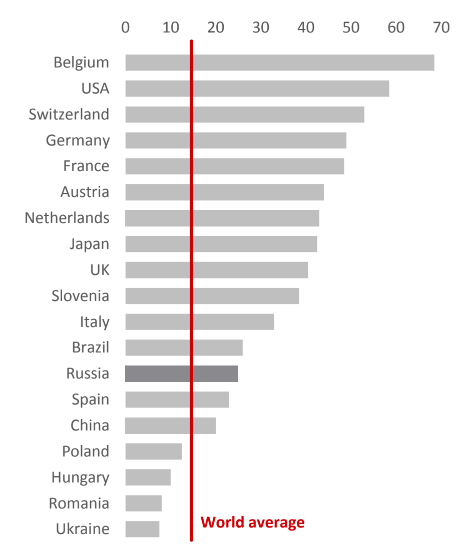
Source: IHS Insight, Morgan Stanley Research

Exhibit 12 % year car sales relative to 2013 car fleet (%)



Source: IHS Insight, Morgan Stanley Research

Exhibit 13 Global car sales per 1,000 population



Source: IHS Insight, Morgan Stanley Research

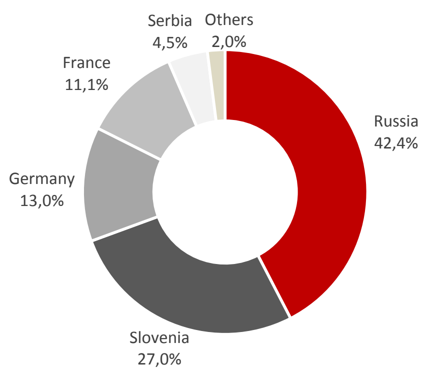
Recent data in Russia continues to deteriorate, with Russia itself forecasting economic contraction in 2015. Morgan Stanley's economists have revised their forecast down to a 1.7% growth contraction as well. With that said, it seems likely that Russian 2015 car sales will continue to disappoint. The termination of a modest car scrappage scheme by the government in 2015 is another downward driver to 2015 forecasts. **However, with the**

rouble somewhat stabilized in the last week or two, 2015 outlook for Renault and consequently AD Plastik might not be quite so gloomy, although we remain very uncertain on the matter.

In the long-run, a very low penetration rate for Russian car ownership relative to Western levels definitely provides tailwind for growth. However, short-term could prove to be much more volatile and dependent on current macro conditions. With that said, shorter term investors could be better off focusing on the speed of the fleet growth and sales per 1,000 driving population. Both these metrics also have room for catch-up, but could be largely affected by the economic woes, thus resulting in depressed growth rates in the coming year or two.

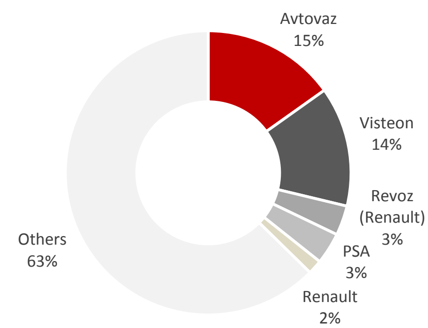
Also, looking at the bigger picture the Russian car market has recovered relatively quickly from trough levels in 2009. IHS currently forecasts a continued decline, fuelled by the uncertain political situation in the country, over the next two years before finally picking up momentum towards the end of the decade.

Exhibit 14 AD Plastik's 2013 sales breakdown



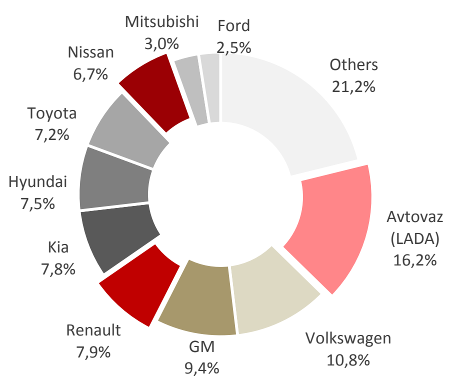
Source: AD Plastik

Exhibit 15 Key accounts (structure of receivables, 2013)



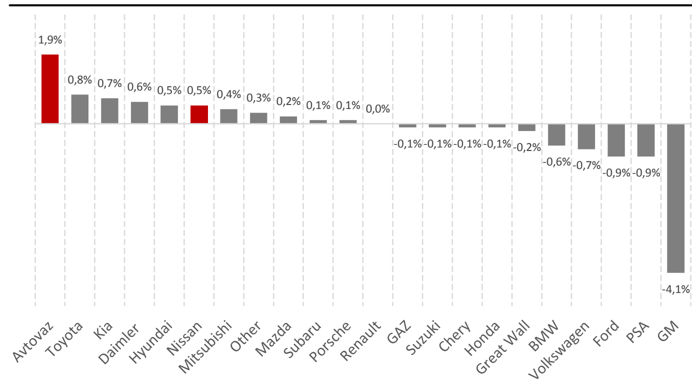
Source: AD Plastik

Exhibit 16 Oct 2014 YTD Russian total car sales by OEM



Source: AEB, AMC, Morgan Stanley Research

Exhibit 17 Oct changes in market share, 2014 vs. 2013



Source: AEB, AMC, Morgan Stanley Research

As a response to the recent market conditions, AD Plastik has been implementing contracts that are adjusted quarterly (or more frequently if necessary) in relation to the exchange rate, but this can only partially limit the effect of the rapid drop coupled with demand decline. Also, the company produces Russian quantities locally, which is a cornerstone for future growth, despite cash and non-cash weaknesses stemming from currency translation differences and the current lack of demand amid strong recession worries.

In addition to local production facilities which minimize AD Plastik's foreign exchange exposure and create a competitive advantage compared to other components manufacturers, the Group is heavily exposed to Renault and its associates Nissan and Avtovaz. This is a major risk factor for the company at the moment, but can also prove to be a massive tailwind once the Russian market starts recovering, given the market share those three companies hold.

From the beginning of 2000 until the middle of the decade, we would note that only very few suppliers were able to pass on the raw material inflation costs to OEMs thanks to their excellent product positioning in safety related segments or products that had a tangible additional value for consumers. **According to JP Morgan, since the middle of the decade there has been a fundamental coordinated effort by the supplier industry to pass on raw material costs from the sub suppliers all the way to the OEMs.** Meanwhile, the OEMs have been managing to offset these price increases by requesting additional efficiency cost savings and price reductions from suppliers. **This has left our supplier group in a position of competitive power, where raw-material or inflation-related costs can be passed on to the OEMs.**

On the other hand, the supplier industry is being constantly consolidated, which means fewer players control and develop products for OEMs, creating additional economies of scale which in turn generates pressure for smaller regional component manufacturers.

__Europe__

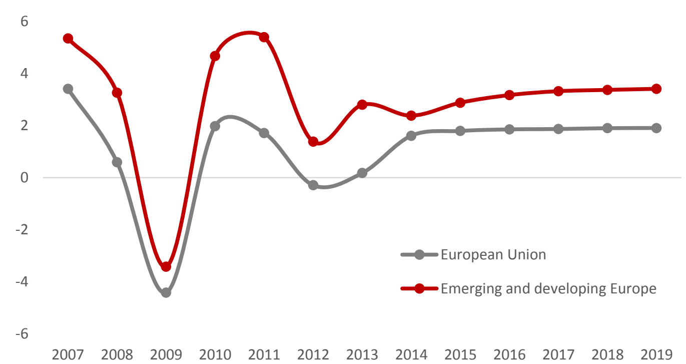
A strong start to 2014 lost momentum during the third quarter, echoing a downward inflection in consumer confidence. However, we feel that product momentum will play a fundamental role for Renault and Daimler thanks to the launch of new vehicles. PSA, on the other hand, is going through a reverse process of eliminating non profitable products in the portfolio.

The key growth driver for AD Plastik in Europe is the Edison project, for which a new paint shop was built. The project is a cooperation between Renault and Daimler on development of the new Twingo and Smart. AD Plastik is set to produce plastic car parts for both vehicles whose total production is expected at around 300k vehicles per year (145k Twingo's manufactured in Slovenia-based Revoz ,52k Smart's in Revoz and 114k Smart's in Hambach, France). In comparison, the 2013 production volume of the old Twingo model was around 85k.

AD Plastik invested EUR 20m in preparation for the Edison project. The return on investment should come from the expected revenue growth per vehicle, namely +20% for the new Twingo manufactured in Slovenia's Revoz, +44% for the Smart assembled in Revoz and +3% for the Smart made in French Hambach.

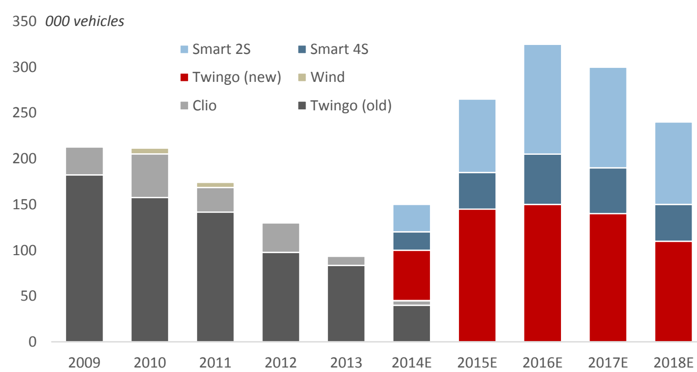
In addition to these plans, **a strong indicator of the required quantities is the fact that Renault's Slovenian factory Revoz has hired around 1,000 new workers since the beginning of the year.** The increase in workforce has been done in three increments, resulting in 2.5-shift production. Even though the new Twingo launched in the latter part of the year, the production volume should increase to at least 120k already in 2014.

Exhibit 18 Historical and est. annual GDP growth rates



Source: IMF

Exhibit 19 Car volumes in Revoz & Hambach



Source: Revoz, AD Plastik, InterCapital Research

We would also note that European unemployment has recently shown signs of stabilizing (albeit on a high level), a leading indicator of replacement car demand in Europe. The slow pace of decline in the unemployment rate supports expectations that European car market demand will show low digit growth in 2015. Despite the already mentioned minor downward inflection in the third quarter, the Eurozone consumer confidence indicator has been mostly increasing since December 2012.

Risks wise, rising interest rates definitely count as notable. Autos are one of the most rate-sensitive sectors after housing. For most consumers, buying a car is the second-largest purchase they will make, and for many customers, credit is the only way to finance such a purchase. Therefore, low and falling interest rates designed to drive global consumption are a direct driver of car sales. A combination of the end of US QE and the start of ECB's accommodating policy makes this risk extremely difficult to assess at this stage, which is why we are extra cautious on this high-beta, highly interest-rate sensitive sector.

AD Plastik Group in 9M 2014

In this year's third quarter AD Plastik made a long-awaited strong move in the right direction. Profitability was still lagging, but this should level-out as well once the sales volumes of new car models start nearing envisaged levels. However, Russia has become a drag in the final quarter which will make it tough for Europe to offset in 2014.

(HRK 000)	2012	2013	Change %	9M13	9M14	Change %
Sales	756.035	817.591	8,1%	594.164	608.100	2,3%
EBITDA	92.436	71.579	-22,6%	41.854	39.648	-5,3%
EBIT	38.300	21.209	-44,6%	4.374	-1.611	-136,8%
Net income	56.017	27.661	-50,6%	23.528	4.979	-78,8%
EpS (HRK)	13,34	6,59	-50,6%	5,60	1,19	-78,8%
EBITDA margin	11,8%	8,5%	-330 bp	6,9%	6,4%	-50 bp
Profit margin	7,2%	3,3%	-390 bp	3,9%	0,8%	-310 bp
ROE	7,8%	3,9%	-390 bp	-	-	-
ROA	4,3%	1,8%	-250 bp	-	-	-
P / E*	8,9	18,1	102,5%	-	-	-

*Multiples are calculated based on the market price from October 30th 2014 (HRK 119.01)
Source: AD Plastik Group

In the first nine months of the year AD Plastik Group recorded sales in the amount of HRK 608.1m, up 2.3% relative to the same period last year thanks to a strong third quarter. A large investment cycle which started in 2012 is nearing completion, meaning majority of the development projects should start serial production by the end of the year. Vehicle models that are nearing the end of their lifetime have been replaced by new models, whose sales are much better, thus impacting the volumes sold.

The European Automobile Manufacturers Association (ACEA) published that **the demand for new passenger cars in the EU increased for the thirteenth consecutive month, with a rise of 6.1% in September and 5.8% in the first nine months.** September's 6.4% sales gain was nearly on par with the 6.5% growth achieved in the same period of 2009, the strongest September jump over the past decade. However, the downside is that Russia posted a 12.1% decline in new passenger car and LCV sales in the first eight months of the year.

In the first nine months EBITDA dropped 5.3% on the year, while the EBITDA margin declined by 50 bp to 6.4%. The nine-months profitability figures were mostly affected by cessation of production of old vehicle models and adjustment of serial production for new models, as well as the already mentioned deterioration of market conditions in Russia.

If we look at the pro-forma consolidation of belonging stakes in joint ventures (EURO APS and FADP), nine-months operating revenues declined by 0.7% in relation to the same period last year, while operating profit decreased by 28.0%.

Financial Projections

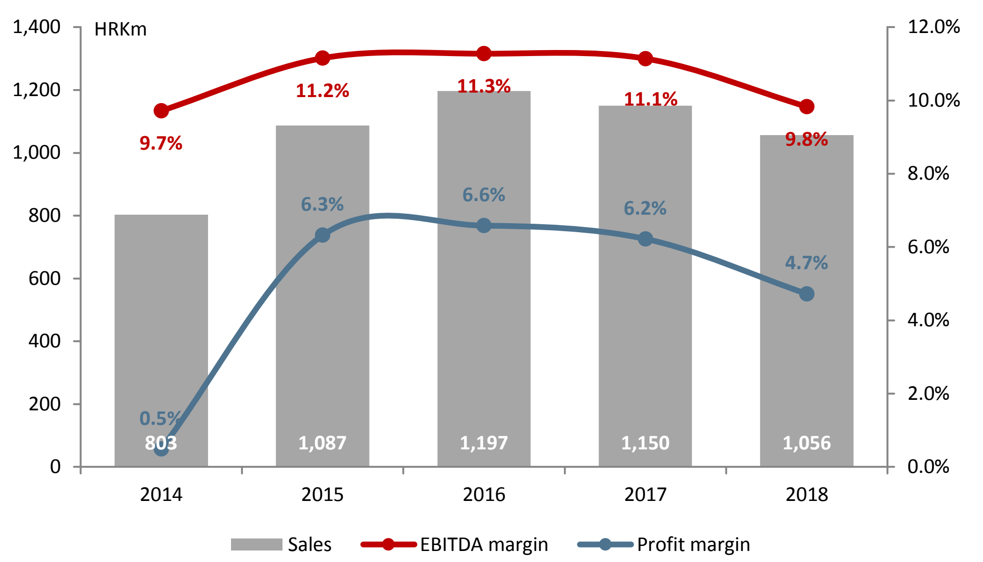
Financial Projections Until 2018

Time horizon of our projection is 5 years. We have developed a financial model based on the public data provided by AD Plastik, analysis of available financial reports, discussions with the management, and the above mentioned industry analysis.

Assumptions for Model Development

In the projected period until 2018, we see sales growing at 5.3% CAGR, mostly led by full-scale production for the Edison project and the gradual recovery of European car sales.

Exhibit 20 Projected sales, EBITDA and net profit development



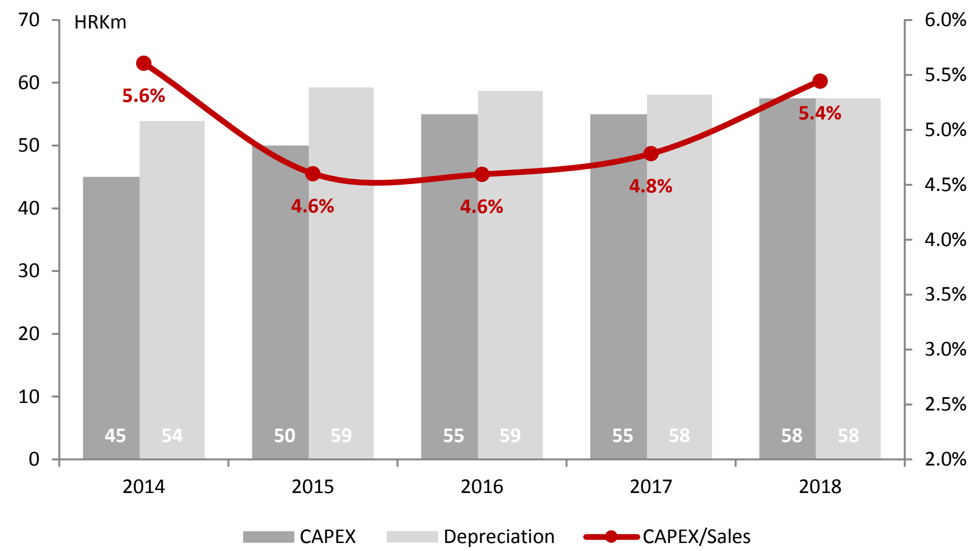
Source: InterCapital Research

Profitability wise we see the EBITDA margin improving close to historical levels (slightly below as a result of competitive pressures), due to the effects of better capacity utilization.

We estimate the bottom line should also witness favourable development, additionally helped by contribution of AD Plastik's Romanian JV EAPS. Forex result should also stabilize unless we see more major shocks in Russia. Depreciation wise, we envisage stable development broadly at current levels. As far as CAPEX, the company is at a low point in the investment cycle, meaning the projected CAPEX will be mostly related to maintenance and minor investments. AD Plastik invested EUR 20m in preparation for the Edison project. The return on investment should come from the expected revenue growth per vehicle, namely +20% for the new Twingo manufactured in Slovenia's Revoz, +44% for the Smart assembled in Revoz and +3% for the Smart made in French Hambach.

The company also owns disposable non-core assets, namely land in Dalmatia, worth somewhere in the neighbourhood of EUR 16m.

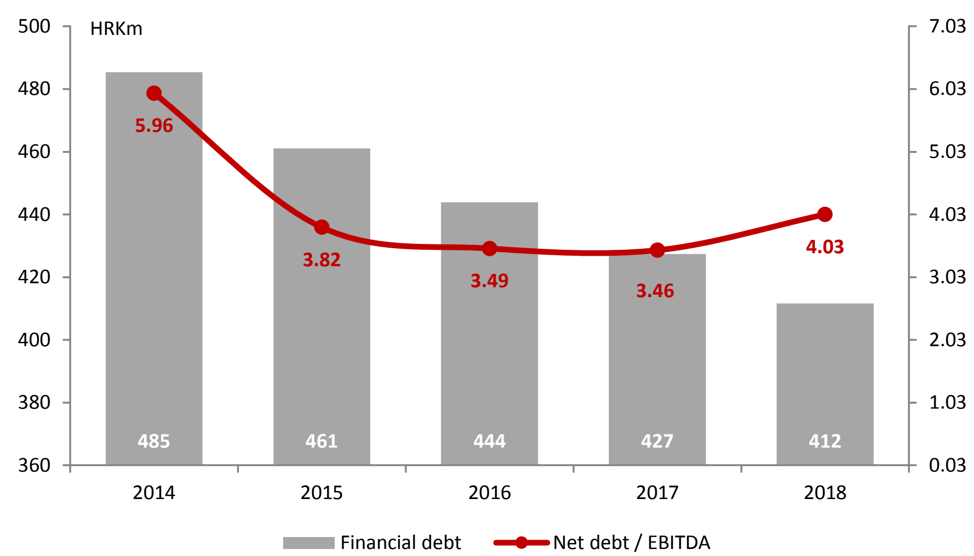
Exhibit 21 Projected CAPEX and depreciation development



Source: InterCapital Research

AD Plastik is a relatively leveraged company with about, HRK 500m of net debt which creates pressures on the bottom line. The debt was historically used to finance the capex cycle, but questions can be raised why the company decides to continuously pay dividend (currently required by the parent company statute) instead of slightly deleveraging.

Exhibit 22 Projected indebtedness and net debt-to-EBITDA evolution

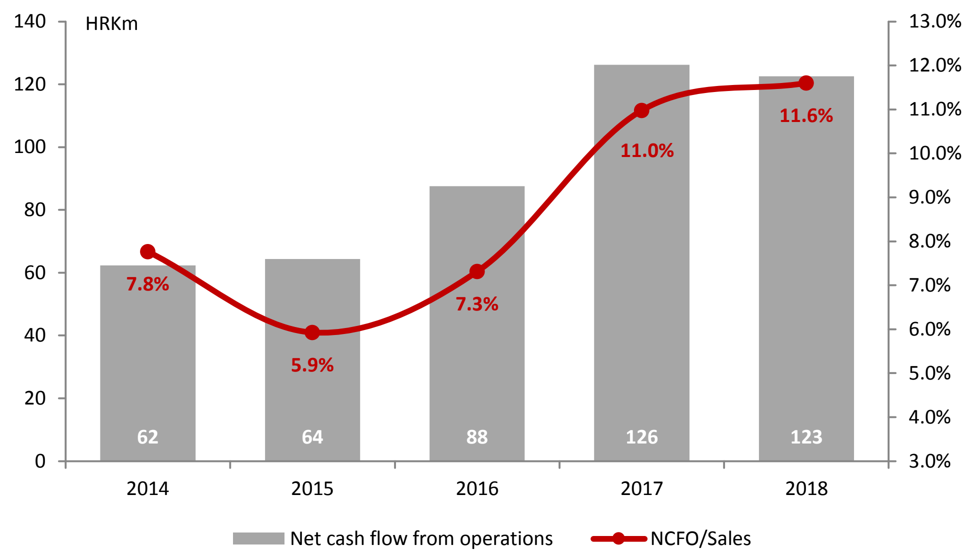


Source: InterCapital Research

Despite a high level of financial debt, AD Plastik does not have trouble servicing it, as it generates a more than substantial cash flow, especially given its low average interest rate of around 5%. Also, the debt has to be observed taking into account the company's joint ventures whose profits are booked via equity method.

A strong increase in volumes produced is bound to result in additional working capital requirement, which will slightly hamper the company's cash generation. Nevertheless, NCFO is seen rising with even further potential lying in working capital optimization.

Exhibit 23 Projected net cash flow from operations development



Source: InterCapital Research

AD Plastik is a solid dividend player required to pay out 50% of parent company profit (should be largely boosted by the Edison project in 2015). This provides a solid yield for shareholders but leaves the company with less cash available for investments and debt repayment.

Valuation

Discounted Cash Flow Method

In the DCF valuation we have used the FCFF (free cash flow to firm) model which we believe is optimally adjusted to the business model, capital structure and business strategy of AD Plastik Group and gives the most objective look at its fundamental value.

Exhibit 24 DCF valuation summary

Free Cash Flow to the Firm HRK 000, except per-share data	2014E	2015E	2016E	2017E	2018E
EBIT	26,836	64,108	78,332	72,127	48,201
Tax	1,342	3,205	5,483	5,770	4,820
NOPLAT	25,495	60,903	72,849	66,357	43,381
Plus: depreciation	53,896	59,285	58,693	58,106	57,525
Minus: change in working capital	41,205	47,279	32,784	-8,795	-21,161
Minus: capital expenditures	45,000	50,000	55,000	55,000	57,525
Free cash flow	**-6,814**	**22,909**	**43,757**	**78,257**	**64,542**

Valuation	
Present value of cash flows	139,285
Present value of terminal value	514,413
Enterprise value	653,698
Minus: net debt	481,500
Minus: Minority interest	29
Equity value	172,169
Equity value per outstanding share	**41.00**
Current share price	94.99
Upside/(downside) potential	**-56.8%**

Residual Assumptions	
WACC	**9.9%**
Residual growth rate	2.0%
Shares - outstanding	4,167,822
Tax rate	20%

Implied multiples	
Enterprise value / 2014 EBITDA	8.1x
Enterprise value / 2015 EBITDA	5.3x
Terminal value / Last EBITDA	4.9x

DCF assumptions	2014E	2015E	2016E	2017E	2018E
Sales	802,667	1,086,545	1,196,899	1,149,849	1,056,399
Change	-1.8%	35.4%	10.2%	-3.9%	-8.1%
Operating expenses	749,934	982,751	1,078,102	1,038,391	969,635
Change	-2.3%	31.0%	9.7%	-3.7%	-6.6%
EBITDA	**80,732**	**123,393**	**137,024**	**130,233**	**105,726**
EBITDA growth	12.8%	52.8%	11.0%	-5.0%	-18.8%
EBITDA margin	9.7%	11.2%	11.3%	11.1%	9.8%

As a % sales	2014E	2015E	2016E	2017E	2018E
Depreciation	6.7%	5.5%	4.9%	5.1%	5.4%
Capex	5.6%	4.6%	4.6%	4.8%	5.4%
Working capital	23.8%	21.9%	22.6%	22.8%	22.8%

Source: InterCapital Research

Using the discounted cash flow method we have derived AD Plastik's equity value in the amount of HRK172.2m or HRK 41.00 per share. Due to the net debt position totalling HRK 481.5m, AD Plastik's estimated EV is HRK 653.7m.

By analysing the sensitivity of our model in relation to perpetual growth rate (PGR) and weighted average cost of capital (WACC), the fair equity value per share range proved to be within the HRK 20.02 and HRK 74.00 range.

Exhibit 25 Sensitivity analysis

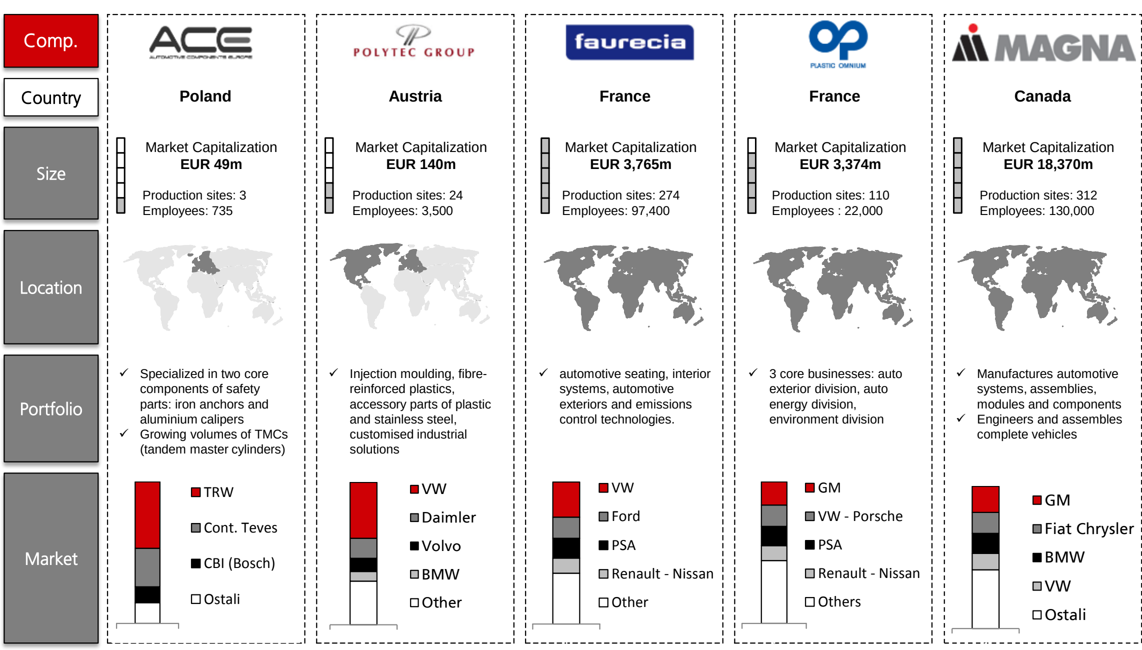
	9.1%	9.3%	9.5%	9.7%	9.9%	10.1%	10.3%	10.5%	10.7%
2.8%	74.00	69.21	64.71	60.47	55.80	52.70	49.12	45.72	42.50
2.6%	68.92	64.43	60.20	56.21	51.80	48.86	45.48	42.26	39.21
2.4%	64.14	59.92	55.94	52.17	48.00	45.23	42.02	38.97	36.07
2.2%	59.65	55.67	51.91	48.36	44.41	41.78	38.74	35.84	33.08
2.0%	55.40	51.65	48.10	44.74	**41.00**	38.50	35.61	32.85	30.23
1.8%	51.39	47.85	44.49	41.30	37.75	35.38	32.63	30.01	27.50
1.6%	47.59	44.24	41.06	38.03	34.66	32.41	29.79	27.29	24.90
1.4%	43.99	40.82	37.80	34.92	31.72	29.57	27.07	24.69	22.40
1.2%	40.57	37.56	34.69	31.96	28.91	26.86	24.48	22.20	20.02

Source: InterCapital Research

Comparables Method

The key step in using the comparables valuation method is selection of companies operating within relevant markets and whose business model is comparable to that of AD Plastik. We feel the companies selected in our peer group are quite comparable with AD Plastik in terms of the product portfolio. However, they significantly vary in size and leverage, which can create vast differences in profitability. Therefore, we ultimately placed a slightly smaller weight of 40% on the comparables valuation method, while our DCF model accounts for 60% of the final target price.

Exhibit 26 Peer group overview



Source: InterCapital Research, Bloomberg, Web

Exhibit 27 Valuation using the comparables method

AD PLASTIK GROUP COMPARABLES	EV/S 2014e	EV/S 2015e	EV/EBITDA 2014e	EV/EBITDA 2015e	P/E 2014e	P/E 2015e	P/B 2014e	P/B 2015e
Faurecia	0.3	0.3	4.6	3.9	17.2	11.3	2.2	1.9
Magna	0.6	0.6	6.7	6.2	12.2	10.5	2.6	2.4
Polytec Group	0.3	0.3	4.3	3.5	9.6	7.7	0.9	0.8
ACE	0.6	0.6	5.7	5.2	11.9	9.9	0.5	0.5
Plastic Omnium	0.8	0.8	6.7	6.2	14.2	12.3	3.1	2.7
Median	**0.6**	**0.6**	**5.7**	**5.2**	**12.2**	**10.5**	**2.2**	**1.9**
AD Plastik Group without JVs	**1.1**	**0.8**	**10.9**	**7.0**	**97.3**	**5.7**	**0.6**	**0.5**
Discount / Premium	76%	38%	89%	36%	697%	-46%	-74%	-72%
AD Plastik Group with JVs	**0.7**	**0.6**	**5.8**	**4.5**	**97.3**	**5.7**	**0.6**	**0.5**
Discount / Premium	7.8%	-4.8%	1.5%	-12.5%	696.9%	-46.2%	-74.0%	-72.2%

AD Plastik avg. 2014/2015		
Sales		944,606
EBITDA		102,063
Adj. net profit (ex. JV)		-1,834
Net debt		476,712
Equity		726,992
EV/S	0.6x	90,051
EV/EBITDA	5.5x	80,551
P/E	11.4x	-
P/B	2.0x	1,479,428
Implied value		**90,051**

Source: InterCapital Research, Bloomberg

In relation to its peers, AD Plastik (based on forward multiples) definitely looks overvalued in terms EBITDA and sales multiples. However, this has to be adjusted for minority stakes in EAPS and FADP by adjusting the figures for the appropriate share in sales and profits, as well as net debt. With that done, AD Plastik starts to look a lot more attractive in terms of relative valuation.

Differences in profitability, which stem from size, product/brand portfolio and market differences, as well as the level of indebtedness, also have a noticeable impact on multiples used in this calculation.

AD Plastik Group valuation using the comparables method by applying average forward multiples on average 2014/2015 estimated consolidated financials (excluding JV's) derived a fair equity value of HRK 90.1m.

Valuation summary

Our valuation of AD Plastik Group consists of two separate methods, DCF and comparables, created on the basis of extensive industry and company analysis as well as discussions with the company's management. In addition, we performed separate valuations of the company's JV's, namely 50% stake in Romanian EAPS and 40% in Russian FADP.

With all things considered, the peer group comparison is not that indicative for the value of AD Plastik's shares, as the comparable companies do have some differences between them, mostly in terms of size and profitability, as well as level of indebtedness. Also, AD Plastik's is currently in an upward trending part of the cycle which is tough to capture using comparables. Therefore the comparables method was given a 40% weight, with 60% going in favour of the DCF.

Exhibit 28 Valuation summary

(HRK 000)	AD Plastik Group		EAPS (50%)		FADP (40%)	
Method	DCF	Peer	DCF	Peer	DCF	Peer
Weight	60%	40%	60%	40%	60%	40%
Equity value	172,169	90,051	266,180	323,803	14,242	12,335
Weighted equity value	139,322		289,229		14,242	
Total equity value	442,793					
Non-core assets	*15,750*					
Shares outstanding	4,167,822					
Target price per share	**110.02**					
Current market price	94.99					
Growth potential	**15.8%**					

Source: InterCapital Research

By summing up the three standalone valuations **we have estimated the fundamental equity value of AD Plastik Group at HRK 442.8m which corresponds to HRK 110.02 per share**, offering upside in relation to the market price as of 2 January 2015 of 15.8%, **ultimately earning a BUY recommendation.** However, we do remain cautious and uncertain regarding the situation in Russia and therefore prepared to revise our valuation in case of major events, both upwards and downwards towards our bear and bull scenarios.

Exhibit 29 Audited results 2012-2013 and projections until 2018

(in HRK000)	Audited		InterCapital estimate					CAGR
INCOME STATEMENT	**2012**	**2013**	***2014***	***2015***	***2016***	***2017***	***2018***	***13 - 18***
Sales	**721,730**	**817,591**	**802,667**	**1,086,545**	**1,196,899**	**1,149,849**	**1,056,399**	***5.3%***
Other operating revenue	14,686	21,538	27,999	19,600	18,228	18,774	18,962	*-2.5%*
Operating revenue	**736,416**	**839,129**	**830,666**	**1,106,144**	**1,215,127**	**1,168,624**	**1,075,361**	***5.1%***
Inven. change of fin. g. and WIP	-974	-7,195	-6,979	-6,770	-6,567	-6,370	-6,179	*-3.0%*
Material costs	419,833	464,162	452,558	651,683	727,930	684,255	627,461	*6.2%*
Personnel costs	123,999	151,053	176,732	219,148	234,488	232,143	213,572	*7.2%*
Other operating costs	91,840	159,529	127,623	118,690	122,250	128,363	134,781	*-3.3%*
Operating costs	**634,698**	**767,549**	**749,934**	**982,751**	**1,078,102**	**1,038,391**	**969,635**	***4.8%***
EBITDA	**101,718**	**71,580**	**80,732**	**123,393**	**137,024**	**130,233**	**105,726**	***8.1%***
Amortization	49,482	50,370	53,896	59,285	58,693	58,106	57,525	*2.7%*
EBIT	**52,236**	**21,210**	**26,836**	**64,108**	**78,332**	**72,127**	**48,201**	***17.8%***
Net financial result	-9,366	-34,512	-61,388	-29,320	-32,499	-34,741	-34,517	*0.0%*
Net income from inv. in joint venture	27,680	41,708	38,840	38,826	40,202	41,659	42,764	*0.5%*
EBT	**70,550**	**28,406**	**4,288**	**73,613**	**86,034**	**79,045**	**56,448**	***14.7%***
Income tax	5,881	754	214	3,681	6,022	6,324	5,645	*49.6%*
Net income before min. Int.	**64,669**	**27,652**	**4,074**	**69,933**	**80,012**	**72,722**	**50,804**	***12.9%***
Minority interest	5	-8	5	5	5	5	5	*-192.5%*
Net income	**64,664**	**27,660**	**4,069**	**69,928**	**80,007**	**72,717**	**50,798**	***12.9%***

(in HRK000)	Audited		InterCapital estimate					CAGR
BALANCE SHEET	**2012**	**2013**	***2014***	***2015***	***2016***	***2017***	***2018***	***13 - 18***
Tangible assets	537,993	711,217	702,321	693,036	689,343	686,237	686,237	*-0.7%*
Intangible assets	41,387	121,105	139,271	142,056	145,608	149,539	153,726	*4.9%*
Financial assets	162,445	165,686	149,117	156,573	167,533	179,261	191,809	*3.0%*
Other noncurrent assets	994	1,993	598	628	659	692	727	*-18.3%*
Total noncurrent assets	**742,819**	**1,000,001**	**991,307**	**992,293**	**1,003,143**	**1,015,729**	**1,032,499**	***0.6%***
Inventories	72,996	94,792	86,792	116,053	129,631	121,854	111,740	*3.3%*
Accounts receivable	201,381	210,989	252,895	327,452	360,709	346,530	318,367	*8.6%*
Financial assets	60,675	16,803	18,483	18,853	19,419	20,001	20,401	*4.0%*
Cash and cash equivalents	7,512	28,943	3,866	-10,827	-34,053	-23,240	-14,531	-187.1%
Active time separation	116,165	184,903	129,432	134,609	137,302	134,556	129,173	-6.9%
Total current assets	**342,564**	**351,527**	**362,037**	**451,532**	**475,706**	**465,145**	**435,977**	***4.4%***
TOTAL ASSETS	**1,201,548**	**1,536,431**	**1,482,776**	**1,578,434**	**1,616,151**	**1,615,430**	**1,597,649**	***0.8%***
Share capital	419,958	419,958	419,958	419,958	419,958	419,958	419,958	*0.0%*
Own shares reserves	218,938	255,179	269,009	271,044	306,007	346,011	382,369	*8.4%*
Net income	64,664	27,660	4,069	69,928	80,007	72,717	50,798	*12.9%*
Minority interest	12	9	9	9	10	10	10	*2.0%*
Total shareholders equity	**703,572**	**702,806**	**693,045**	**760,939**	**805,981**	**838,695**	**853,135**	***4.0%***
Provisions	15,214	8,075	7,671	7,748	7,825	7,904	7,983	*-0.2%*
Noncurrent financial liabilities	79,842	255,816	281,398	267,328	253,961	241,263	229,200	*-2.2%*
Other noncurrent liabilities	69	226	113	119	125	131	137	*-9.5%*
Total noncurrent liabilities	**95,125**	**264,117**	**289,182**	**275,194**	**261,911**	**249,298**	**237,320**	***-2.1%***
Current financial liabilities	130,575	239,963	203,969	193,770	189,895	186,097	182,375	*-5.3%*
Accounts payable	120,621	156,085	148,786	205,325	219,376	206,214	189,098	*3.9%*
Other current liabilities	149,447	117,431	119,780	113,791	108,101	102,696	101,669	*-2.8%*
Passive time separation	2,208	56,029	28,015	29,415	30,886	32,430	34,052	*-9.5%*
Total current liabilities	**402,851**	**569,508**	**500,549**	**542,301**	**548,258**	**527,437**	**507,194**	***-2.3%***
TOTAL CAPITAL AND LIABILITIES	**1,201,548**	**1,536,431**	**1,482,776**	**1,578,434**	**1,616,151**	**1,615,430**	**1,597,649**	***0.8%***

(in HRK000)	Audited	InterCapital estimate				
CASH FLOW STATEMENT	**2013**	***2014***	***2015***	***2016***	***2017***	***2018***
Net income	27,660	4,069	69,928	80,007	72,717	50,798
Adjusted for:						
Amortization	50,370	53,896	59,285	58,693	58,106	57,525
Cash flow from operating act. before changes in work. cap.	**78,030**	**57,965**	**129,213**	**138,699**	**130,822**	**108,323**
Financial assets	40,631	14,888	-7,826	-11,526	-12,310	-12,948
Accounts receivable	-9,608	-41,906	-74,557	-33,257	14,179	28,163
Inventories	-21,796	8,000	-29,261	-13,578	7,778	10,114
Other assets	-69,737	56,866	-5,207	-2,724	2,713	5,348
Accounts payable	35,464	-7,299	56,539	14,051	-13,163	-17,116
Other liabilities	14,823	-26,183	-4,506	-4,135	-3,776	680
Net cash flow from operating activities	**67,807**	**62,332**	**64,395**	**87,530**	**126,244**	**122,563**
Net purchase of tan. and intan. assets	-303,312	-63,166	-52,785	-58,551	-58,931	-61,712
Net cash flow from investing activities	**-303,312**	**-63,166**	**-52,785**	**-58,551**	**-58,931**	**-61,712**
Change in own shares reserves	-28,423	-13,830	-2,035	-34,964	-40,003	-36,358
Minority interest	-3	0	0	0	0	0
Inc. (dec.) in loan liabilities	285,362	-10,413	-24,268	-17,242	-16,496	-15,785
Net cash flow from financing activities	**256,936**	**-24,243**	**-26,303**	**-52,205**	**-56,499**	**-52,143**
Net change in cash and cash equiv.	21,431	-25,077	-14,693	-23,227	10,813	8,708
Cash and cash equivalents (1 Jan)	7,512	28,943	3,866	-10,827	-34,053	-23,240
Cash and cash equivalents (31 Dec)	**28,943**	**3,866**	**-10,827**	**-34,053**	**-23,240**	**-14,531**

Source: AD Plastik, InterCapital Research

Disclaimer

Information in this report is intended for informative purposes only and does not represent the solicitation to buy or sell any financial instruments or participate in any particular trading strategy. The information contained in this report has been obtained from public sources as well as directly from Companies' Management. Although we believe our information and price quotes to be reasonably reliable, we do no guarantee their accuracy or completeness. In addition, the price or value of financial instruments described in this report may fluctuate and realize gains or losses. InterCapital Securities Ltd, headquartered in Zagreb, Masarykova 1, does not assume any responsibility for the damage caused by the use of information and projections contained in this report. Opinions expressed in this report constitute current judgment of the author(s) as of the date of this report and are subject to change without notice.

InterCapital Securities Ltd uses various methods in Company valuations. Among the rest are comparative analyses of peer companies, discounted cash flow methods and other.

Fundamental analysis is a financial analysis of industries and companies based on factors such as sales, assets, profit, products or services, markets and management. In conducting fundamental analysis, InterCapital Securities Ltd uses various methods to determine a value of the Issuer. Among the rest, analysis of comparable companies, discounted cash flow and other methods are being used. Although InterCapital Securities Ltd uses models commonly accepted in the financial industry and theory, the results of these models depend on plans and information obtained from the Issuer as well as subjective opinions of analysts.

InterCapital Securities Ltd owns the following issues:

The author of fundamental analyses in this report is Kreso Vugrincic. Kreso Vugrincic is employed at InterCapital Securities Ltd registered in Zagreb, Masarykova 1 as an Analyst. InterCapital Securities Ltd is supervised by Croatian Financial Services Supervisory Agency (HANFA).

Kreso Vugrincic has no ownership interest in AD Plastik Group. He doesn't own any shares of AD Plastik Group, and neither do his immediate family members.

The company InterCapital Securities Ltd. acts as a market maker for ADPLRA ZA, PODRRA ZA, KOEIRA ZA and HTRA ZA.

Fundamental rating values of an Issuer are given according to the following scale:

Strong buy - equities with expected absolute revenue of more than 20% in the monitored time period

Buy - equities with expected absolute return of 10%-20% in the monitored time period

Hold - equities with expected absolute return of -10% to 10% in the monitored time period

Sell - equities with expected absolute return below -10% in the monitored time period

Under review - an issuer might be placed Under Review due to new information which is not included in the analysis.

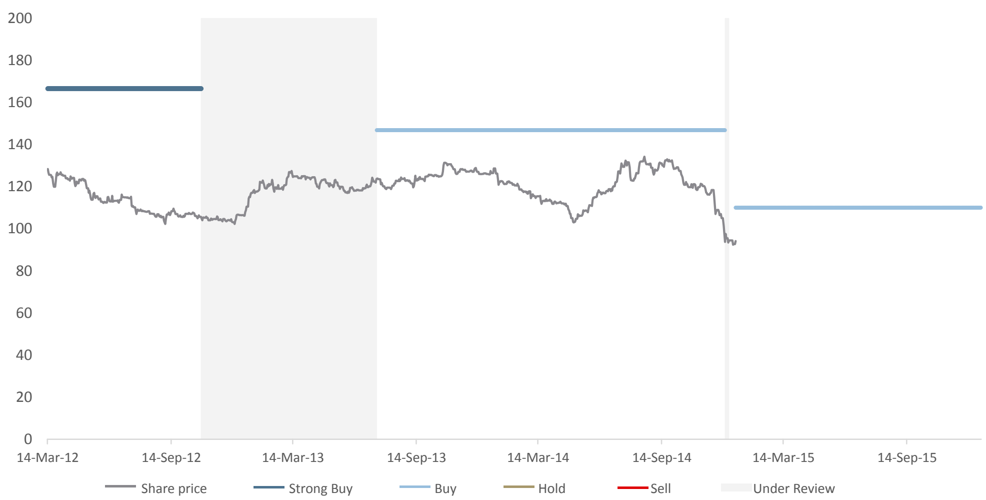
Up to August 14, 2014 the Hold recommendation was used for equities with an expected return of 0% to 10%, while the Sell recommendation was used for equities with an expected negative absolute return. Criteria for other recommendation remained unchanged.

InterCapital

3Q2014 (1 July - 30 September 2014)			
	Number	Share	Companies which InterCapital Securities Ltd. provided investment banking service within last 12 months
Strong Buy	5	33,3%	RIVP-R-A
Buy	2	13,3%	-
Hold	4	26,7%	-
Sell	0	0,0%	-
Under Review	4	26,7%	-

Any investments indicated in the report constitute risk, are not readily available in all jurisdictions, can be illiquid and may not be suitable for all investors. Value or income realized on any one investment mentioned in the report may vary. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Investors must make their own informed investment decisions without depending on this Recommendation. Only investors with sufficient knowledge and expertise in financial dealings who are able to evaluate risk and return may consider investing in any form of securities or markets indicated herein.

Chronology of share recommendations



InterCapital Securities Research contacts

Tomislav Bajic, CFA, Head of Research, +385 (0)1 4825 858, tomislav.bajic@intercapital.hr

Kreso Vugrincic, Analyst, +385 (0)1 4825 864, kreso.vugrincic@intercapital.hr

Divo Pulitika, Junior Analyst, +385 (0)1 4825 867, divo.pulitika@intercapital.hr