

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Event update

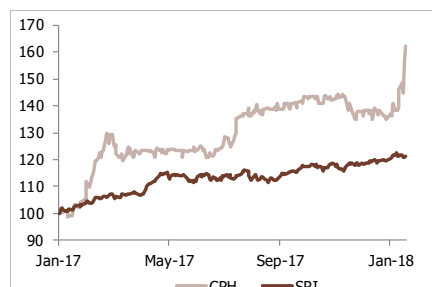
23 January 2018

Company Data

Price:	CHF 65.00
Market Cap:	CHF 390mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (1 year):	1,276.3
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2015	2016	2017E	2018E
Sales	420.0	434.8	458.1	477.6
EBITDA %	2.9%	8.5%	6.9%	8.8%
EBIT %	(5.2%)	1.4%	0.0%	2.1%
Net Margin %	(7.9%)	(1.8%)	0.3%	0.8%
Basic EPS	(5.52)	(1.32)	0.20	0.61
Diluted EPS	(5.52)	(1.32)	0.20	0.61
DPS	0.60	0.65	0.65	0.65
Equity Ratio %	64.5%	56.2%	56.4%	56.8%
Net capex	(22.0)	(1.5)	(36.5)	(21.4)
P/Sales	0.6x	0.8x	0.8x	0.8x
P/E	NM	NM	328.7x	105.1x
EV/EBITDA	25.8x	12.5x	14.7x	11.0x

Next Events

Annual Results Conference	20 Feb 2018
Ordinary General Meeting	14 Mar 2018
Half-Year Results	July 2018

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CPH strengthens its Packaging Division with Sekoya acquisition

CPH Chemie + Papier Holding AG (CPH/the group) is a diversified industrial group with activities in the paper, chemical products and pharmaceutical packaging films industries. CPH generates around 55% of its revenues from the Paper division, where almost all sales come from Europe. CPH is one of the only two newsprint paper producers in the Swiss market and the country's sole magazine paper producer. The Packaging division manufactures high barrier films for the global pharmaceutical industry and is the third-largest supplier of PVC coated high-barrier films. The Chemistry division produces molecular sieves and has a global exposure.

Sekoya Indústria e Comércio Ltda. will be integrated in CPH's Packaging Division

CPH's packaging division, Perlen Packaging AG, has agreed to acquire a 60% stake in its long-established distribution partner Sekoya Indústria e Comércio Ltda. The acquisition, which will be effective retroactively from 1 January 2018, will help the company to expand its footprint in the Americas by having its own distribution company and finishing plant.

Perlen Packaging has retained the founder, Wellington Branquinho, and his team of 12 people to continue to run the company. Branquinho started Sekoya in 2012 and will retain 40% stake in the company.

Sekoya has been distributing mostly CPH's packaging products in Brazil, thus not much 3rd party revenue has been generated. Through its finishing plant, Sekoya will enable Perlen Packaging a better access to the Brazilian and Latin American market and help to improve its flexibility as well as efficiency further in the Latin and South American region. Sekoya itself is expanding by opening a new location in Goiania in the next few months. This acquisition provides Perlen Packaging a better access to Brazil, one of the bigger emerging markets, and is expected to provide further growth impetus.

CPH, with this acquisition strengthening the highest margin division in the group, and along with the acquisition of Armar AG (in the chemistry division in November 2017) is showing its resolve to decrease its dependency on the paper business. Also, the company with its new film coating production facility in China and the announced deal in the Latin America has established a truly global footprint.

Financial details regarding the transaction were not disclosed by the parties. The transaction is expected to close at the end of February 2018. Since no further information is available regarding this transaction, we leave our current income statement, balance sheet and cash flow estimates unchanged. The company will be publishing the FY17 results on 20 February, which will give us more clarity on how the different divisions are developing.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. In the DCF analysis, we have updated our WACC to 5.2%. WACC has changed from 6.1% earlier due to change in Debt/Equity ratio as the stock price has increased considerably. Considering the improving growth prospects we increased our target price to CHF 67.00 per share from CHF 60.90 per share earlier, which gives an upside of 3.1% from the current levels.

On a relative basis, the stock is trading at a steep discount of ~51% to the weighted average of its peers on a 2018E P/S basis. Similarly, the company trades at discount of ~33% on a 2018E EV/EBITDA basis.

We believe, in the medium-term, the stock could trade at higher multiples on account of an increased contribution of sales and operating profits expected out of the Asia-Pacific region and higher operating efficiencies from the new production facilities coupled with acquisition synergies.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
CPH Chemie & Paper	9.4x	10.6x	7.0x	0.6x	0.8x	0.8x	24.6x	NA	65.4x
Paper peers:									
Holmen	11.7x	13.7x	12.7x	1.7x	2.4x	2.4x	29.8x	22.2x	20.2x
Stora Enso	7.3x	9.4x	8.6x	0.8x	1.1x	1.1x	25.0x	17.1x	15.2x
Altri	7.6x	7.9x	7.6x	1.3x	1.6x	1.6x	11.0x	11.4x	11.4x
Metsä Board	12.1x	11.1x	9.6x	1.1x	1.5x	1.3x	20.3x	20.4x	15.2x
UPM-Kymmene	8.6x	9.5x	9.3x	1.1x	1.5x	1.5x	13.7x	15.4x	15.1x
Norsk Skogindustrier	11.4x	12.9x	8.8x	0.0x	0.0x	0.0x	2.9x	NA	NA
James Cropper	13.7x	NA	NA	1.0x	1.8x	1.7x	30.0x	31.3x	27.1x
OJI Holdings	10.0x	10.4x	9.6x	0.4x	0.5x	0.5x	32.4x	21.3x	17.8x
Chemistry peers:									
Honeywell Int.	11.5x	15.0x	13.6x	2.3x	3.0x	2.8x	18.9x	18.6x	19.4x
Clariant	10.2x	12.2x	11.2x	1.1x	1.5x	1.5x	26.4x	25.6x	27.8x
Arkema	7.2x	6.9x	6.6x	0.8x	1.0x	0.9x	19.9x	20.0x	19.0x
WR Grace & Co.	18.7x	12.2x	11.4x	2.8x	2.9x	2.8x	39.5x	38.1x	49.2x
Packaging peers:									
Meadwestvaco	10.6x	NA	NA	1.5x	NA	NA	30.9x	NA	NA
MacFarlane Group	9.3x	10.9x	9.0x	0.5x	0.7x	0.6x	13.5x	13.4x	11.9x
Gerresheimer	9.8x	10.1x	9.6x	1.6x	1.6x	1.6x	30.4x	17.6x	16.2x
West Pharmaceutical Services	19.9x	22.0x	18.8x	3.7x	4.7x	4.3x	43.6x	36.4x	34.6x
Conveitidora Industrial	7.6x	NA	NA	0.4x	NA	NA	41.6x	NA	NA
PSB Industries	5.9x	5.9x	5.8x	0.6x	0.5x	0.5x	10.9x	10.8x	10.6x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	13.1x	NA	NA	0.0x	NA	NA	32.2x	NA	NA
Median	10.2x	10.9x	9.6x	1.1x	1.5x	1.5x	26.4x	20.0x	17.8x
High	19.9x	22.0x	18.8x	3.7x	4.7x	4.3x	43.6x	38.1x	49.2x
Low	5.9x	5.9x	5.8x	0.0x	0.0x	0.0x	2.9x	10.8x	10.6x
Premium (disc) to peers	(8%)	(3%)	(27%)	(46%)	(45%)	(42%)	NA	NM	267%

Source: Thomson Eikon (as on 19 Jan 2018)

Exhibit 2: CPH – Comparison with weighted average of division peers

	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
Weighted peer multiples	10.5x	11.4x	10.4x	1.3x	1.8x	1.7x	25.2x	20.4x	19.6x
CPH	9.4x	10.6x	7.0x	0.6x	0.8x	0.8x	24.6x	NA	65.4x
Premium (disc) to peers	(11%)	(8%)	(33%)	(55%)	(54%)	(51%)	NM	NM	233%

Source: Thomson Eikon (as on 19 Jan 2018)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Chemistry sales	68	59	60	63	69	76	85
Paper sales	314	306	314	248	246	257	259
Packaging sales	106	116	118	110	119	126	133
Net Sales	489	481	492	420	435	458	478
Cost of Sales	(325)	(323)	(313)	(285)	(267)	(289)	(296)
Gross profit	163	158	180	135	168	169	182
Personnel cost	(85)	(86)	(88)	(86)	(89)	(94)	(96)
Outsourced maintenance/repairs	(19)	(19)	(18)	(16)	(18)	(18)	(19)
Other operating expense	(21)	(22)	(23)	(21)	(25)	(25)	(25)
Total operating costs	(125)	(127)	(129)	(123)	(131)	(137)	(140)
EBITDA	38	31	51	12	37	31	42
Depreciation on tangible fixed assets	(59)	(57)	(34)	(34)	(31)	(31)	(31)
Depreciation on intangible assets	(2)	(1)	(1)	(0)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	(22)	(27)	16	(22)	6	0	10
Impairment	0	(251)	0	0	0	0	0
Operating profit (EBIT)	(22)	(278)	16	(22)	6	0	10
Finance costs	(7)	(5)	(7)	(13)	(6)	(6)	(6)
Finance income	1	1	2	1	1	0	0
Total financial income (expenses)	(6)	(4)	(6)	(12)	(5)	(6)	(6)
Profit before taxes (before exceptional items)	(28)	(281)	10	(34)	1	(6)	4
Non-operating items	38	2	1	2	(4)	10	0
Income taxes	(2)	8	(1)	(1)	(4)	(3)	(0)
Profit attributable to the parent	8	(271)	11	(33)	(8)	1	4
Basic EPS	1.3	(45.2)	1.8	(5.5)	(1.3)	0.2	0.6
Diluted EPS	1.3	(45.2)	1.8	(5.5)	(1.3)	0.2	0.6
DPS	0.7	0.7	0.7	0.6	0.7	0.6	0.6

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Assets							
Non-current assets							
PPE	719.7	433.7	419.1	404.3	384.6	388.8	377.1
Intangible assets	1.5	1.2	1.3	2.4	3.1	4.0	5.1
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	0.0	2.8	0.0	0.0	0.0	0.0
Other non-current assets	21.2	22.4	22.7	20.2	52.6	52.6	52.6
Total non-current Assets	752.4	467.3	456.0	436.9	450.3	455.4	444.9
Current assets							
Inventories	58.8	56.9	63.4	54.5	68.9	61.6	61.6
Trade accounts receivable	74.0	70.8	79.5	66.4	69.1	69.0	72.0
Other receivables	10.7	7.3	7.7	8.0	8.9	8.9	8.9
Prepaid expenses and accrued income	3.0	5.3	6.6	4.9	4.8	4.8	4.8
Short-term financial receivables	0.2	0.0	0.1	0.0	0.1	0.1	0.1
Liquid funds and Securities	73.3	74.2	75.1	53.2	70.4	65.4	68.2
Total assets	972.4	681.8	688.4	624.0	672.4	665.3	660.5
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Capital reserves	20.1	16.2	12.3	8.4	4.8	0.9	(3.0)
Profit reserves	651.6	659.5	389.2	397.4	351.2	343.3	344.5
Net result for the year	8.1	(271.5)	10.5	(33.1)	(7.9)	1.2	3.7
Non-current liabilities							
Long-term financial liabilities	144.0	117.9	128.0	126.5	145.6	129.2	125.8
Pension scheme liabilities	0.5	0.7	0.6	1.0	1.1	1.1	1.1
Other long-term liabilities	0.0	2.5	2.4	2.3	0.1	0.1	0.1
Long-term provisions	31.3	21.3	20.8	20.0	52.5	52.5	52.5
Current liabilities							
Trade accounts payable	52.9	59.4	53.8	46.7	53.1	55.3	54.8
Other payables	2.6	4.4	3.9	2.6	8.3	8.3	8.3
Accrued liabilities and deferred income	15.8	11.0	9.1	13.6	16.5	16.5	16.5
Short-term financial liabilities	9.8	23.0	22.6	6.8	7.0	23.3	22.7
Short-term provisions	5.7	7.2	5.1	1.5	7.6	0.9	0.9
Total liabilities	262.6	247.5	246.4	221.2	291.6	287.2	282.6
Total equity and liab.	972.4	681.8	688.4	624.0	672.4	665.3	660.5

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net profit for the period	8.1	(271.5)	10.5	(33.1)	(7.7)	1.2	3.7
Non-cash adjustments:	20.8	298.8	30.3	35.3	33.9	31.4	31.9
Change in CA and CL:							
(Increase)/ decrease in inventories	(1.7)	(2.6)	(5.5)	8.4	(13.1)	7.3	0.1
Decrease in trade accounts receivable	1.3	3.4	(11.2)	8.1	(0.5)	0.0	(2.9)
Increase/ (decrease) in trade accounts payable	13.0	6.4	(5.8)	(6.8)	1.6	2.3	(0.6)
Other changes in working capital	0.8	(3.0)	1.5	6.5	5.6	(6.7)	-
Cash flows from operating activities	42.3	31.4	19.8	23.3	21.9	35.5	32.2
Investments in tangible fixed assets	(10.9)	(18.2)	(19.2)	(21.9)	(20.7)	(35.0)	(19.4)
Disposals of tangible fixed assets	30.1	0.9	0.4	1.6	20.5	-	-
Investments in intangible assets	(0.3)	(0.5)	(0.6)	(1.6)	(1.2)	(1.5)	(2.0)
Sale of subsidiary/ Divestiture of interests	-	-	-	-	-	-	-
Repayment of long-term financial receivables	2.5	0.0	-	-	-	-	-
Cash flow generated (used) in investment act.	21.4	(17.8)	(19.4)	(22.0)	(19.9)	(36.5)	(21.4)
Increase/ (Decrease) in short-term financial liabilities and receivables	(1.5)	(2.0)	(0.4)	(15.3)	0.1	16.3	(0.6)
Increase/ (Decrease) in long-term financial liabilities	(25.1)	(10.8)	9.8	(1.1)	19.0	(16.3)	(3.4)
Increase in other long-term liabilities	0.0	2.5	(0.2)	(0.1)	(0.4)	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)
Cash flow generated (used) in financing act.	(30.6)	(14.2)	5.3	(20.4)	15.2	(3.9)	(7.9)
Exchange (losses)/gains	0.1	(0.2)	0.2	2.3	0.1	-	-
Net change in cash	33.2	(0.7)	6.0	(16.7)	17.2	(4.9)	2.8
Opening cash balance	31.5	64.7	63.9	69.9	53.1	70.3	65.4
Closing cash balance	64.7	63.9	69.9	53.1	70.3	65.4	68.2

Source: Research Dynamics, Company data

Key Ratios

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Growth Ratios							
Sales Growth	(6%)	(2%)	2%	(15%)	4%	5%	4%
Chemistry division	(33%)	(13%)	2%	4%	11%	9%	13%
Paper division	(0%)	(3%)	3%	(21%)	(1%)	4%	1%
Packaging division	1%	9%	1%	(7%)	9%	5%	6%
Operating Profit Growth	NM	NM	NM	NM	NM	(99%)	NM
Net Income Growth	NM	NM	NM	NM	NM	NM	213%
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(5%)	(6%)	3%	(5%)	1%	0%	2%
Chemistry division	(0%)	(9%)	(4%)	(3%)	2%	5%	5%
Paper division	(8%)	(10%)	4%	(11%)	(2%)	(5%)	(1%)
Packaging division	5%	6%	4%	5%	8%	8%	8%
EBITDA Margin %	8%	6%	10%	3%	8%	7%	9%
Net Margin (%)	2%	(56%)	2%	(8%)	(2%)	0%	1%
Return Ratios							
Profit Margin	2%	(56%)	2%	(8%)	(2%)	0%	1%
Asset Turnover	0.5x	0.6x	0.7x	0.6x	0.7x	0.7x	0.7x
Financial Leverage	1.4x	1.4x	1.6x	1.6x	1.7x	1.8x	1.8x
Dupont ROE (%)	1%	(47%)	2%	(8%)	(2%)	0%	1%
ROCE (%)	(3%)	(5%)	3%	(4%)	1%	0%	2%
ROA (%)	1%	(33%)	2%	(5%)	(1%)	0%	1%
Leverage Ratios							
Debt - Equity Ratio	0.2x	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x
Net Debt - Equity Ratio	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Interest Coverage	(3.2x)	(6.0x)	5.2x	(5.5x)	1.4x	0.0x	1.7x
Liquidity Ratios							
Current Ratio	2.5x	2.0x	2.5x	2.6x	2.4x	2.0x	2.1x
Quick Ratio	1.9x	1.5x	1.8x	1.9x	1.7x	1.4x	1.5x
Valuation Ratios							
EV/EBITDA	12.3x	13.7x	6.2x	25.8x	12.5x	14.7x	11.0x
P/E	48.4x	NM	22.9x	NM	NM	328.7x	105.1x
P/BV	0.5x	0.8x	0.5x	0.6x	0.8x	0.8x	0.8x

Source: Research Dynamics, Bloomberg, Company data

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