

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

FY2021 Results' update

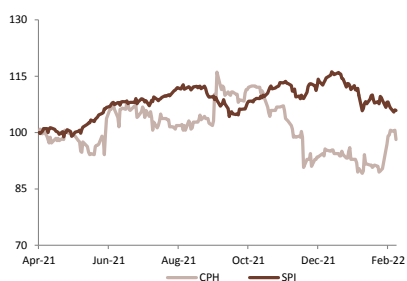
24 February 2022

Company Data

Price:	CHF 63.40
Market Cap:	CHF 380.4mn
Free Float:	11.10%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,356
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2020	2021	2022E	2023E
Sales	445.2	496.7	576.2	554.2
EBITDA %	12.4%	5.2%	12.6%	13.9%
EBIT %	5.5%	(0.5%)	9.0%	10.0%
Net Margin %	10.5%	(30.5%)	7.5%	8.1%
Basic EPS	7.82	(25.26)	7.18	7.52
Diluted EPS	7.82	(25.26)	7.18	7.52
DPS	1.80	1.30	1.30	1.80
Equity Ratio %	66.8%	55.2%	57.6%	61.2%
Capex	(13.5)	(19.4)	(51.6)	(28.8)
P/Sales	0.9x	0.8x	0.7x	0.0x
P/E	8.3x	NM	9.1x	8.6x
EV/EBITDA	7.1x	15.3x	5.4x	5.1x

Source: Research Dynamics, Company data

Next Events

AGM	17 Mar 2022
HY 2022 report	21 Jul 2022
CMD	13 Sept 2022
ZKB Equity Conference	3/4 Nov 2022
FY 2022 report	21 Feb 2023

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Recovery in all divisions to drive overall growth

The top-line performance was weighed by impairment charges

For FY2021, CPH's net sales increased 11.6% YoY to CHF 496.7mn, driven by growth in all three segments. Adjusted for currency factors, topline growth would have amounted to 12.6%. After registering a significant drop in FY2020, the Paper Division reported a 10.2% YoY jump in net sales, whereas Chemistry and the Packaging Divisions registered 5.2% YoY and 29.8% YoY growth, respectively. However, the improvement in topline was offset by the steep rise in the raw material prices and accordingly group EBITDA declined by 53.4% YoY to CHF 25.7mn with corresponding EBITDA margin compressing by 720bps to 5.2% (FY2020: 12.4%). During the year, the company took the impairment charges of CHF 150mn related to its paper production fixed assets. Consequently, the company reported a negative EBIT of CHF 152.7mn (FY2020: CHF 24.7mn). After adjusting for impairment charges, Group EBIT declined to a negative CHF 2.7mn (FY2020: 24.7mn). As result of the impairment, which is non-cash, the company reported a net loss of CHF 151.6mn.

Segmental performance

Paper: In FY2021, net sales of the Paper division increased 10.2% YoY to CHF 230.9mn. During the year, the division sold 15.0% higher paper volumes (505k tons) compared to the previous year, giving an indication of the persisting price pressure. In FY2021, waste paper was exceptionally short in supply, and prices of recovered paper reached historic new highs. This demand-supply imbalance resulted in a certain under-utilization level of the division's paper machines; this unlike FY2020 when the machines were kept idle due to the imposition of lockdown measures. Despite the improvement in top-line, the record high cost for recovered paper pushed the division's EBIT before impairment to a loss of CHF 24.9mn (FY2020: loss of CHF 2.0mn). After accounting for the impairment charge of CHF 150mn, the division's EBIT loss zoomed to CHF 174.9mn.

Packaging: Net sales were up 5.2% YoY to CHF 170.7mn (FY2020: CHF 162.3mn) driven by an improved share of higher-value items in the product portfolio along with an increase in prices. However, the division reported lower volumes in Europe as the protection measures taken to control the spread of the corona virus drastically also reduced the transmission of other infections. Consequently, the demand for over-the-counter medicines also came down and reduced demand for blister pack films too. Nevertheless, the division's strategy to focus on emerging markets started showing effect as Latin America and Asia reported double-digit growth rates. Despite this, and due to the steep increase in raw materials costs, the divisional EBIT decreased drastically to CHF 5.7mn from the CHF 21.6mn of FY2020.

Chemistry: Net sales increased 29.8% YoY to CHF 95.1mn, driven by improved demand in all product segments as facilities were operating at full capacity during the year. The division recorded the historically highest EBIT which jumped ~3x to CHF 15.3mn from last year's EBIT of CHF 4.6mn. The division is set to invest in the additional capacities at its sites in the USA, China, Bosnia and Herzegovina, and Switzerland.

Encouraging outlook for FY2022

The rollout of COVID-19 vaccination in FY2021 enabled governments in many parts of the world to re-open up the economies which helped in a resumption of social and economic activities. Encouraged by the evolving trends, the management sounded optimistic about FY2022 and has provided a favourable outlook.

Group: Group net sales are expected to increase as compared to FY2021. We forecast the growth to be at 16.0%. Concrete divisional developments will depend on the unfolding of the pandemic situation in the key markets on the ability and time lags in passing on the higher raw materials costs to the market. The Group expects to report a mid-double-digit million value for EBIT & net result. Our estimates are CHF 52.0mn and CHF 49.7mn, resp.

Paper: Demand for wood-based graphic printing papers from the Western European region is likely to report a high single-digit decline during FY2022. Although volumes are likely to get negatively impacted, paper prices have stabilized and even slightly increased which helps raise net sales above the FY2021 level. The recovered paper market is also projected to return to more normal. Consequently, the division could report a positive EBIT again for the year.

Packaging: The division is expected to report better overall net sales for the year compared to FY2021 driven by above-average growth, especially from Asia and Latin America along with a boost from the new coating plant in Brazil. Moreover, with plans to pass on the raw materials costs to the market, annual EBIT is expected to see an upturn once again to a double-digit million value.

Chemistry: During FY2022, product demand is likely to improve compared to FY2021 though to a more modest degree. Since the division over the last years has substantially reduced its cost structures thanks to relocating capacities, the operating result is expected to be broadly in line with the record level of FY2021. In relative term, this would result in a slight reduction of the EBIT margin.

Noteworthy incidents:

Interruption at Perlen Papier production: A fire occurred in the waste paper storage facility of Perlen Papier on 7 October 2021, which resulted in a loss of three days of production as the two paper machines had to be stopped. However, from 11 October onwards, the machines started functioning and running again normally. Amid low paper inventory and production loss, Perlen Papier had to cancel booked orders at short notice. Despite this, deliveries within Switzerland were only marginally affected and the company delivered agreed quantities of paper to the publishing houses in Switzerland.

FY2021 profit impacted by impairment: Due to the unfavourable market environment induced by heightened digitisation, the demand for newsprint paper has declined by 6-8% resulting in supply surpassing demand and continued fierce price competition. Moreover, a steep increase in raw material prices is putting pressure on operating profits. Although at present the demand and supply of paper are evenly balanced, the situation is expected to worsen further over the next few years, putting more pressure on pricing. Given this, CPH impaired CHF 150mn of paper production fixed assets in Perlen.

Cyber-attack on IT systems: On 7 January 2022, IT systems of the CPH Group were attacked. As per the contingency plan, the entire Group's IT systems were immediately shut down in a controlled manner and the internal security systems were deployed. As a precautionary measure, production in the Paper and Packaging divisions in Perlen and Müllheim was halted. However, the production was resumed at the affected sites by 13 January 2022 with the help of external cyber specialists. The company does not expect any material impact of this attack on the business performance in FY2022E.

FY2022 Guidance:

Management expects higher sales for all three business divisions and confirmed the following financial targets for FY2022:

- Group EBIT and net result in the mid-double-digit millions
- Chemistry Division: Modest increase in sales and EBIT broadly in line with FY2021
- Paper Division: Higher sales and a double-digit million EBIT
- Packaging Division: Improvement in sales and significantly higher EBIT

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 92.3 per share, is very close to our last estimated target price (CHF 91.3) implying an upside of ~45.5% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare each of CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S, and P/E – to analyze the relative valuation of the Group. CPH currently trades at a P/S multiple of 0.7x (CY2022E), a significant 43% discount to the weighted average multiple of division peers.

The global economy is expected to recover gradually, with the IMF forecasting a 4.4% growth in 2022. While this bodes well for the business in general, in the short term, we expect the concrete development will be influenced by the unfolding of the pandemic. Although all three divisions are expected to report improved net sales, the extent to which the higher raw materials prices can be passed on to the market is likely to impact the bottom line. In the same line, the current shortages of raw materials like recovered paper are expected to ease over the next few months, which shall have a positive impact on costs. Although in the last couple of years the performance of the Paper Division was not encouraging, the division is expected to report improvement in profitability and register a double-digit-million EBIT. Moreover, the operating result of the Packaging Division is also expected to improve. With improvement in bottom-line at group level along with net sales and the cost optimisation efforts are expected to offer a required boost to the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
CPH Chemie & Paper	5.5x	6.2x	4.8x	0.9x	0.7x	0.7x	10.6x	14.7x	14.7x
Paper peers:									
Holmen	18.9x	15.6x	17.6x	3.2x	3.8x	3.9x	17.5x	25.2x	29.6x
Stora Enso	10.0x	7.6x	8.3x	1.1x	1.3x	1.4x	13.3x	12.9x	14.4x
Altri	8.7x	7.6x	7.5x	1.5x	1.4x	1.4x	15.1x	11.0x	11.6x
Metsa Board	9.9x	6.8x	7.3x	1.3x	1.4x	1.4x	14.2x	10.5x	11.7x
UPM-Kymmene	9.5x	10.2x	8.7x	1.6x	1.7x	1.6x	17.0x	16.5x	13.8x
Norskse Scogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
James Cropper	16.9x	0.1x	0.1x	1.2x	0.0x	0.0x	41.8x	21.8x	16.2x
OJI Holdings	7.6x	NM	NM	0.4x	0.4x	0.4x	11.6x	7.5x	7.2x
Chemistry peers:									
Honeywell Int.	15.5x	15.0x	13.8x	3.7x	3.4x	3.2x	24.6x	21.0x	18.8x
Clariant	12.4x	NA	NA	1.5x	NA	NA	46.6x	NA	NA
Arkema	6.4x	6.6x	6.3x	0.9x	1.0x	0.9x	14.4x	12.9x	12.2x
WR Grace & Co.	15.3x	NA	NA	2.2x	NA	NA	81.9x	NA	NA
Packaging peers:									
Meadwestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	8.6x	0.1x	0.1x	0.7x	0.0x	0.0x	16.3x	11.6x	12.1x
Gerresheimer	11.9x	9.0x	8.0x	1.8x	1.3x	1.2x	22.0x	13.9x	11.9x
West Pharmaceutical Services	35.4x	26.4x	23.9x	8.8x	8.8x	8.2x	56.9x	39.4x	35.4x
Convertidora Industrial	3.7x	1.8x	NA	0.2x	0.1x	NA	6.8x	NA	NA
PSB Industries	4.1x	NA	NA	0.3x	NA	NA	14.6x	NA	NA
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bikcare Ltd	47.9x	NA	NA	0.1x	NA	NA	11.7x	NA	NA
Median	10.0x	7.6x	8.0x	1.3x	1.3x	1.4x	16.3x	13.4x	13.0x
High	47.9x	26.4x	23.9x	8.8x	8.8x	8.2x	81.9x	39.4x	35.4x
Low	3.7x	0.1x	0.1x	0.1x	0.0x	0.0x	6.8x	7.5x	7.2x
Premium (disc) to peers	(46%)	(19%)	(40%)	(34%)	(45%)	(46%)	(35%)	10%	13%

Source: Bloomberg and Thomson Eikon (as on 23 Feb 2022)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
Weighted peer multiples	10.7x	7.4x	8.5x	1.1x	1.3x	1.4x	18.9x	14.0x	13.5x
CPH	5.5x	6.2x	4.8x	0.9x	0.7x	0.7x	10.6x	14.7x	14.7x
Premium (disc) to peers	(49%)	(17%)	(43%)	(24%)	(43%)	(49%)	(44%)	6%	9%

Source: Bloomberg and Thomson Eikon (as on 23 Feb 2022)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Chemistry sales	75	79	78	73	95	99	102
Paper sales	264	301	293	210	231	296	260
Packaging sales	130	153	153	162	171	182	192
Net Sales	470	534	525	445	497	576	554
Cost of Sales	(309)	(311)	(298)	(255)	(336)	(362)	(334)
Gross profit	161	222	227	190	161	214	220
Personnel cost	(84)	(92)	(93)	(93)	(92)	(92)	(95)
Outsourced maintenance/repairs	(17)	(19)	(20)	(17)	(18)	(20)	(20)
Other operating expense	(26)	(28)	(26)	(25)	(25)	(29)	(29)
Total operating costs	(127)	(139)	(139)	(135)	(135)	(141)	(143)
EBITDA	34	83	88	55	26	72	77
Depreciation	(30)	(30)	(30)	(29)	(27)	(19)	(20)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	3	52	57	25	(3)	52	55
Impairment	0	0	0	0	(150)	0	0
Operating profit (EBIT)	3	52	57	25	(153)	52	55
Finance costs	(8)	(7)	(6)	(5)	(5)	(2)	(2)
Finance income	2	1	0	0	1	0	0
Total financial income (expenses)	(7)	(6)	(6)	(5)	(4)	(2)	(2)
Profit before taxes (before exceptional items)	(4)	46	51	20	(157)	50	53
Non-operating items	23	0	1	19	7	0	0
Income taxes	(3)	(3)	(3)	8	(2)	(6)	(8)
Profit attributable to the parent	16	42	48	47	(152)	43	45
Basic EPS	2.7	7.1	8.1	7.8	(25.3)	7.2	7.5
Diluted EPS	2.7	7.1	8.1	7.8	(25.3)	7.2	7.5
DPS	0.7	1.8	1.8	1.8	1.3	1.3	1.8

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Assets							
Non-current assets							
PPE	384.1	376.1	366.4	352.6	196.5	227.6	235.0
Intangible assets	4.8	5.8	5.6	5.6	5.8	6.0	6.1
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	0.0	0.0	0.0	0.0	0.0
Other non-current assets	56.4	55.3	54.0	64.8	58.4	58.4	58.4
Total non-current assets	455.3	447.2	436.0	432.9	270.7	302.0	309.5
Current assets							
Inventories	59.2	69.6	78.5	78.3	87.5	91.3	82.9
Trade accounts receivable	77.8	72.1	72.4	52.9	69.3	69.5	68.3
Other receivables	18.0	13.1	14.0	17.2	28.5	28.5	28.5
Prepaid expenses and accrued income	7.0	9.2	8.6	6.7	9.2	9.2	9.2
Short-term financial receivables	0.0	100.3	0.0	0.0	0.1	0.1	0.1
Liquid funds and Securities	80.2	89.0	93.1	116.3	95.1	97.8	120.3
Total assets	697.6	800.5	702.7	704.2	560.4	598.4	618.8
Shareholders' Equity and Liabilities							
Share capital	30.0	12.0	12.0	1.2	1.2	1.2	1.2
Capital reserves	0.8	15.0	4.2	4.2	(0.1)	(0.1)	(0.1)
Profit reserves	346.4	336.2	375.2	418.5	459.5	300.2	332.5
Net result for the year	16.0	42.3	48.3	46.9	(151.6)	43.1	45.1
Non-current liabilities							
Long-term financial liabilities	143.5	120.5	116.8	109.7	106.6	102.7	98.8
Pension scheme liabilities	0.6	1.3	0.7	1.2	1.4	1.4	1.4
Other long-term liabilities	0.0	0.8	0.6	0.4	0.3	0.3	0.3
Long-term provisions	51.8	50.0	47.5	31.5	24.1	24.1	24.1
Current liabilities							
Trade accounts payable	69.5	69.7	66.3	56.8	84.8	91.3	81.3
Other payables	3.3	4.1	3.6	4.6	3.9	3.9	3.9
Accrued liabilities and deferred income	17.2	20.0	16.3	16.8	18.3	18.3	18.3
Short-term financial liabilities	9.8	125.8	5.9	8.1	3.2	3.1	3.0
Short-term provisions	5.6	1.2	3.8	3.3	7.4	7.4	7.4
Total liabilities	301.3	393.3	261.4	232.4	249.9	252.5	238.4
Total equity and liab.	697.6	800.5	702.7	704.2	560.4	598.4	618.8

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net profit for the period	16.2	42.3	48.5	47.0	(151.4)	43.2	45.2
Non-cash adjustments:	(1.5)	26.3	31.2	(2.2)	169.5	20.3	21.3
Change in CA and CL:							
(Increase)/ decrease in inventories	13.6	(8.6)	(10.2)	(4.1)	(9.6)	(3.8)	8.4
Decrease in trade accounts receivable	(7.7)	5.0	(1.3)	20.5	(15.5)	(0.2)	1.1
Increase/ (decrease) in trade accounts payable	15.8	(1.1)	(2.8)	(9.0)	30.7	6.6	(10.0)
Other changes in working capital	(4.2)	0.4	(4.3)	2.8	(7.9)	-	-
CFO	32.2	64.3	61.0	55.0	15.8	66.1	66.1
Investments in tangible fixed assets	(32.3)	(22.3)	(21.9)	(17.5)	(23.0)	(50.1)	(27.3)
Disposals of tangible fixed assets	15.4	6.3	0.8	5.2	5.2	-	-
Investments in intangible assets	(2.4)	(2.2)	(1.0)	(1.3)	(1.6)	(1.5)	(1.5)
Sale of subsidiary/ Divestiture of interests	-	-	-	0.1	0.2	-	-
Investments in business activities	-	(27.9)	-	(1.6)	-	-	-
Repayment of long-term financial receivables	-	-	100.9	(0.3)	(0.1)	-	-
CFI	(19.3)	(46.0)	78.9	(15.3)	(19.2)	(51.6)	(28.8)
Increase/ (Decrease) in short-term financial liabilities and receivables	1.0	(4.3)	(123.4)	(4.4)	(6.9)	(0.1)	(0.1)
Increase/ (Decrease) in long-term financial liabilities	(0.6)	(3.0)	(1.1)	-	-	(3.9)	(3.9)
Increase in other long-term liabilities	0.2	2.1	(0.2)	(0.4)	(0.3)	-	-
Dividends to shareholders	(3.9)	(3.9)	(10.9)	(10.8)	(10.8)	(7.8)	(10.8)
CCF	(3.3)	(9.1)	(135.6)	(15.6)	(18.0)	(11.8)	(14.8)
Exchange (losses)/gains	0.2	(0.3)	(0.2)	(0.9)	0.2	-	-
Net change in cash	9.8	8.9	4.1	23.2	(21.2)	2.7	22.5
Opening cash balance	70.3	80.1	89.0	93.1	116.3	95.1	97.8
Closing cash balance	80.1	89.0	93.1	116.3	95.1	97.8	120.3

Source: Research Dynamics, Company data

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Growth Ratios							
Sales Growth	8%	14%	(2%)	(15%)	12%	16%	(4%)
Chemistry division	9%	5%	(2%)	(6%)	30%	4%	4%
Paper division	7%	14%	(3%)	(29%)	10%	28%	(12%)
Packaging division	9%	17%	0%	6%	5%	7%	6%
Operating Profit Growth	(51%)	NM	10%	(56%)	NM	NM	7%
Net Income Growth	NM	165%	14%	(3%)	NM	NM	5%
Profitability Ratios (%)							
Operating margin	1%	10%	11%	6%	(1%)	9%	10%
Chemistry division	5%	8%	6%	6%	16%	16%	19%
Paper division	(5%)	10%	12%	(1%)	(11%)	8%	7%
Packaging division	7%	10%	11%	13%	3%	7%	10%
EBITDA Margin %	7%	16%	17%	12%	5%	13%	14%
Net Margin (%)	3%	8%	9%	11%	(31%)	7%	8%
Return Ratios							
Profit Margin	3%	8%	9%	11%	(31%)	7%	8%
Asset Turnover	0.7x	0.7x	0.7x	0.6x	0.8x	1.0x	0.9x
Financial Leverage	1.8x	1.9x	1.8x	1.5x	1.6x	1.8x	1.7x
Dupont ROE (%)	4%	11%	11%	10%	(39%)	13%	12%
ROCE (%)	1%	10%	10%	4%	(1%)	12%	12%
ROA (%)	2%	6%	6%	7%	(24%)	7%	7%
Leverage Ratios							
Debt - Equity Ratio	0.4x	0.6x	0.3x	0.2x	0.4x	0.3x	0.3x
Net Debt - Equity Ratio	0.2x	0.4x	0.1x	0.0x	0.0x	0.0x	(0.0x)
Interest Coverage	0.7x	11.8x	9.1x	9.1x	(1.1x)	21.7x	24.0x
Liquidity Ratios							
Current Ratio	2.3x	1.6x	2.8x	3.0x	2.5x	2.4x	2.7x
Quick Ratio	1.7x	1.3x	2.0x	2.2x	1.7x	1.7x	2.0x
Valuation Ratios							
EV/EBITDA	11.6x	4.7x	4.5x	7.1x	15.3x	5.4x	5.1x
P/E	24.4x	9.2x	8.1x	8.3x	NM	9.1x	8.6x

Source: Research Dynamics, Bloomberg, Company data

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