

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Event Update

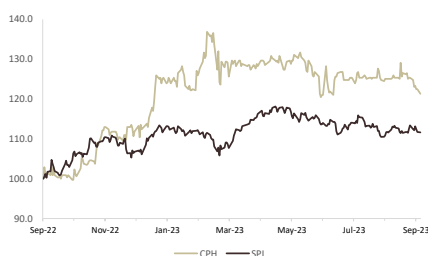
29 September 2023

Company Data

Price:	CHF 83.20
Market Cap:	CHF 501.6mn
Free Float:	11.1%
No. of shares:	6.0mn
Avg. traded volume (30 day):	746.1
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2021	2022	2023E	2024E
Sales	496.7	725.4	638.8	640.4
EBITDA %	5.2%	18.1%	14.8%	11.5%
EBIT %	(0.5%)	15.5%	11.7%	8.3%
Net Margin %	(30.5)	13.9%	12.2%	7.0%
Basic EPS	(25.3)	16.8	12.99	7.48
Diluted EPS	(25.3)	16.8	12.99	7.48
DPS	1.30	4.5	4.20	3.60
Equity Ratio %	55.2%	59.8%	74.8%	75.6%
Capex	(19.4)	(29.6)	(20.3)	(28.7)
P/Sales	1.1x	0.7x	0.8x	0.8x
P/E	NM	5.2x	6.7x	11.6x
EV/EBITDA	17.4x	3.4x	4.7x	6.1x

Source: Research Dynamics, Company data

Next Events

ZKB Swiss Conference	01 Nov 2023
Baader Swiss Conference	10 Jan 2024
Earnings Announcement	20 Feb 2024

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FY 2023 targets reaffirmed amidst uncertain markets and focus on implementation of sustainability strategy

Investor Day summary

During this year's investor day hosted in Zurich on 26 September, CPH Group reaffirmed its targets for 2023e amidst considerably uncertain markets. More importantly, management provided an update on the implementation of the strategic objectives relating to the Group as well as its individual divisions, Chemistry, Packaging and Paper. In addition, a special focus was put on the Group's sustainability strategy which shall help to achieve net zero emissions by 2050.

Group: The group is well on track with the implementation of its long-term strategy, which has resulted in an increase of the non-paper related activities to close to half of revenues, an increase in sales outside of Europe to around 25% of Group total and a significant reduction of the dependency on the Swiss franc. Given the strong market positions of the three divisions in their respective markets and further development along the long-term strategy including tailwinds from the megatrends of Healthcare, Energy and the Circular Economy, management is confident to further deliver on shareholder returns in the long-term.

This said, 2023 will continue to be challenging, especially with regard to the paper division where a further reduction in sales is anticipated due to a substantial decrease in demand within the paper industry. On Group level, it is expected that growth from the other divisions will not be able to compensate for this impact on revenues. Nevertheless, the decrease in prices of certain raw materials is expected to offer some relief. The company continues to anticipate EBIT and net results in the higher double-digit million range.

Paper: A sharp decline in demand for graphic printing papers in Europe, coupled with mounting consolidation pressures, continues to persist. Elevated energy and recovered paper prices are anticipated to remain. Meanwhile, the company continues to expect substantially lower net sales and EBIT compared to FY2022. To maintain its market position, the company is relentlessly focusing on productivity and sustainability as a differentiator. The Paper Division is the world's first producer of carbon-neutral paper and the only recovered paper recycler in Switzerland. Its paper products have a carbon footprint 76% lower than the European average and from 2021 customers have been able to offset the remaining CO₂ through a certified reforestation project. The division is also developing environmentally friendly label liners based on recovered paper and waste wood, enabling suppliers of release liners to significantly reduce their carbon footprint.

Packaging: The packaging division is poised for sales growth above market rates in 2023, with EBIT expected to significantly surpass FY2022 levels, thanks to an excellent utilization and lower raw material costs. Beyond this, a normalisation of customer order patterns is expected and the order backlog is forecast to return to lower pre-pandemic levels. The division is developing new products and solutions to meet evolving market needs and megatrends. One highlight presented was the new PERLALUX PVC Mono Blister, a new recyclable mono blister under development and currently being tested by machine builders and customers.

Chemistry: The sector is projected to maintain FY2023 sales above the levels recorded in 2022, although EBIT is likely to remain steady, given the persistent high costs of raw materials, energy, and mounting price pressures. The company provided further insight into how innovation is driving demand. For example, the division is focusing on introducing new products in the field of deuterated molecules due to growing industry interest in these molecules.

Sustainability

The focus of the investor day this year was around sustainability and a corporate update on the sustainability strategy. The Group is very much committed to long-term and sustainable value creation, which is enshrined in the company's articles of association. CPH has a high level of climate awareness and continuous initiatives to reduce energy consumption. The company has reduced CO₂ emissions in the paper division by 88% since 2013 and strives to achieving net-zero emissions by 2050, developing an appropriate phased plan while maintaining competitiveness. CPH also has significant in-house renewable energy production, resource-efficient use of materials and a circular economy at the core of paper production (recovered paper & waste wood). The company also focuses on the economical use of water

in closed loops, the reduction of transport distances and the use of environmentally friendly means of transport.

Other highlights

The CPH Group made certain investments in its Chemistry business, including expanding capacity for DMSO products in Rüti and lithium-based products in the U.S. The group widened its Molecular sieve powder production capacities in Zvornik.

Meanwhile, considering the rising interest in deuterated molecules, the Chemistry division has been increasing its focus on introducing new products. The segment has been producing several deuterated molecules for research and development projects for the pharmaceutical industry as well as for other production ventures.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 97.8 per share is the same as the previous target price (CHF 97.8) and implies an upside of 17.6% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S, and P/E – to analyse the relative valuation of the Group. CPH currently trades at an EV/EBITDA multiple of 5.0x (FY2024e), a significant 34.3% discount to the weighted average multiple of division peers.

The global economy is expected to recover gradually, with the IMF slashing 2023e to 2.9% and rising 2024e by 3.1%. In the short term, we believe ongoing inflationary headwinds and prospects of a slowdown may weigh on the company's prospects. On a positive note, the company could pass on the higher raw material and energy costs. Along the same line, the current shortages of raw materials like recovered paper are expected to stay on a high level over the 2HFY2023e with the respective impact on costs. Although over the past decade, the performance of the Paper Division was demanding, the supply side squeeze should keep the division's profitability at an acceptable level. Moreover, the operating results of the Packaging and Chemistry divisions – both benefitting from somewhat higher visibility – are expected to remain resilient. A better bottom line at the Group level and cost optimisation efforts are expected to result in a healthy performance of the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E
CPH Chemie & Paper	5.2x	5.3x	5.0x	1.2x	0.7x	0.7x	15.4x	7.0x	8.6x
Paper peers:									
Holmen	15.6x	10.9x	10.6x	3.5x	2.0x	2.0x	18.1x	17.9x	17.2x
Stora Enso	9.1x	6.5x	6.3x	1.2x	0.9x	0.9x	11.9x	10.7x	10.3x
Altri Sgps	10.0x	5.9x	5.4x	1.0x	1.8x	1.7x	12.0x	8.3x	7.5x
Metsa Board	8.9x	7.6x	7.3x	1.4x	1.2x	1.1x	12.0x	11.0x	10.4x
Uprn-Kymmene	10.4x	7.6x	7.6x	1.7x	1.4x	1.4x	17.7x	12.6x	12.8x
Norske Skogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cropper (James)	16.2x	0.1x	0.1x	1.1x	0.0x	0.0x	52.7x	20.3x	13.9x
Oji Holdings Corp	7.7x	NM	NM	0.4x	0.4x	0.4x	9.8x	10.8x	9.6x
Chemistry peers:									
Honeywell Int.	16.6x	13.4x	12.6x	4.0x	3.0x	2.9x	27.6x	19.3x	17.8x
Clariant	10.7x	NA	NA	1.3x	NA	NA	36.7x	NA	NA
Arkema	5.7x	5.6x	5.4x	0.8x	0.8x	0.8x	11.8x	10.1x	9.7x
Chemours Co/The	19.2x	11.5x	10.7x	2.3x	2.6x	2.4x	NM	17.1x	15.2x
Packaging peers:									
Macfarlane Group Plc	7.2x	0.1x	0.1x	0.7x	0.0x	0.0x	14.0x	11.8x	11.4x
Gerresheimer Ag	11.5x	10.5x	9.9x	1.7x	1.5x	1.4x	27.6x	17.6x	15.7x
West Pharmaceutical Services	33.6x	19.3x	18.2x	9.6x	4.2x	4.0x	50.9x	35.4x	31.4x
Convertidora Industrial Sa-A	2.9x	NA	NA	0.1x	NA	NA	6.8x	NA	NA
Psb Industries	5.2x	4.0x	3.7x	0.4x	0.4x	0.4x	NA	13.1x	11.4x
Bilcare Ltd	22.6x	NA	NA	0.2x	NA	NA	17.3x	NA	NA
Median	10.4x	7.6x	7.3x	1.2x	1.3x	1.3x	17.3x	12.8x	12.1x
High	33.6x	19.3x	18.2x	9.6x	4.2x	4.0x	52.7x	35.4x	31.4x
Low	2.9x	0.1x	0.1x	0.1x	0.0x	0.0x	6.8x	8.3x	7.5x
Premium (disc) to peers	(50%)	(30%)	(33%)	2%	(45%)	(44%)	(11%)	(45%)	(29%)

Source: Bloomberg and Refinitiv (as on 28 September 2023)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E
Weighted peer multiples	12.5x	7.9x	7.5x	1.9x	1.4x	1.4x	31.7x	15.4x	13.9x
CPH	5.2x	5.3x	5.0x	1.2x	0.7x	0.7x	15.4x	7.0x	8.6x
Premium (disc) to peers	(58%)	(33%)	(34%)	(35%)	(51%)	(49%)	(51%)	(55%)	(38%)

Source: Bloomberg and Refinitiv (as on 28 September 2023)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Chemistry sales	79	78	73	95	110	114	117
Paper sales	301	293	210	231	384	280	266
Packaging sales	153	153	162	171	231	245	257
Net Sales	534	525	445	497	725	638.8	640.4
Cost of Sales	(311)	(298)	(255)	(336)	(431)	(393)	(411)
Gross profit	222	227	190	161	294	246	229
Personnel cost	(92)	(93)	(93)	(92)	(102)	(101)	(106)
Outsourced maintenance/repairs	(19)	(20)	(17)	(18)	(28)	(19)	(19)
Other operating expense	(28)	(26)	(25)	(25)	(34)	(31)	(31)
Total operating costs	(139)	(139)	(135)	(135)	(163)	(151)	(156)
EBITDA	83	88	55	26	131	95	74
Depreciation	(30)	(30)	(29)	(27)	(16)	(19)	(20)
Amortisation	(1)	(1)	(1)	(1)	(2)	(1)	(1)
Operating profit (EBIT) before impairment	52	57	25	(3)	112	75	53
Impairment	0	0	0	(150)	0	0	0
Operating profit (EBIT)	52	57	25	(153)	112	75	53
Finance costs	(7)	(6)	(5)	(5)	(4)	(1)	0
Finance income	1	0	0	1	0	0	0
Total financial income (expenses)	(6)	(6)	(5)	(4)	(4)	(1)	0
Profit before taxes (before exceptional items)	46	51	20	(157)	108	74	53
Non-operating items	0	1	19	7	(8)	17	0
Income taxes	(3)	(3)	8	(2)	1	(13)	(8)
Profit attributable to the parent	42	48	47	(152)	101	78	45
Basic EPS	7.1	8.1	7.8	(25.3)	16.8	13.0	7.5
Diluted EPS	7.1	8.1	7.8	(25.3)	16.8	13.0	7.5
DPS	1.8	1.8	1.8	1.3	4.5	4.2	3.6

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Assets							
Non-current assets							
PPE	376.1	366.4	352.6	196.5	213.7	229.2	236.9
Intangible assets	5.8	5.6	5.6	5.8	4.5	4.6	4.7
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	55.3	54.0	64.8	58.4	55.8	55.8	55.8
Total non-current assets	447.2	436.0	432.9	270.7	284.0	299.6	307.5
Current assets							
Inventories	69.6	78.5	78.3	87.5	113.1	91.0	96.2
Trade accounts receivable	72.1	72.4	52.9	69.3	93.9	83.0	83.2
Other receivables	13.1	14.0	17.2	28.5	21.9	16.9	13.9
Prepaid expenses and accrued income	9.2	8.6	6.7	9.2	9.6	9.6	9.6
Short-term financial receivables	100.3	0.0	0.0	0.1	0.0	0.0	0.0
Liquid funds and Securities	89.0	93.1	116.3	95.1	143.6	100.6	110.0
Total assets	800.5	702.7	704.2	560.4	666.2	600.7	620.4
Shareholders' Equity and Liabilities							
Share capital	12.0	12.0	1.2	1.2	1.2	1.2	1.2
Capital reserves	15.0	4.2	4.2	(0.1)	(0.1)	(0.1)	(0.1)
Profit reserves	336.2	375.2	418.5	459.5	397.1	370.1	422.8
Net result for the year	42.3	48.3	46.9	(151.6)	0.0	77.9	44.9
Non-current liabilities							
Long-term financial liabilities	120.5	116.8	109.7	106.6	0.0	0.0	0.0
Pension scheme liabilities	1.3	0.7	1.2	1.4	1.7	1.7	1.7
Other long-term liabilities	0.8	0.6	0.4	0.3	0.0	0.0	0.0
Long-term provisions	50.0	47.5	31.5	24.1	31.4	26.4	23.4
Current liabilities							
Trade accounts payable	69.7	66.3	56.8	84.8	93.0	80.3	83.2
Other payables	4.1	3.6	4.6	3.9	6.5	6.5	6.5
Accrued liabilities and deferred income	20.0	16.3	16.8	18.3	27.2	27.2	27.2
Short-term financial liabilities	125.8	5.9	8.1	3.2	98.9	0.0	0.0
Short-term provisions	1.2	3.8	3.3	7.4	7.8	7.8	7.8
Total liabilities	393.3	261.4	232.4	249.9	266.6	150.1	150.0
Total equity and liab.	800.5	702.7	704.2	560.4	666.2	600.7	620.4

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net profit for the period	42.3	48.5	47.0	(151.4)	101.0	78.0	45.0
Non-cash adjustments:	26.3	31.2	(2.2)	169.5	28.4	4.7	20.8
Change in CA and CL:							
(Increase)/ decrease in inventories	(8.6)	(10.2)	(4.1)	(9.6)	(27.2)	22.0	(5.1)
Decrease in trade accounts receivable	5.0	(1.3)	20.5	(15.5)	(26.7)	11.0	(0.2)
Increase/ (decrease) in trade accounts payable	(1.1)	(2.8)	(9.0)	30.7	6.9	(12.7)	2.9
Other changes in working capital	0.4	(4.3)	2.8	(7.9)	15.3	0.0	0.0
CFO	64.3	61.0	55.0	15.8	97.6	103.1	63.3
Investments in tangible fixed assets	(22.3)	(21.9)	(17.5)	(23.0)	(32.9)	(34.2)	(27.5)
Disposals of tangible fixed assets	6.3	0.8	5.2	5.2	4.3	15.0	0.0
Investments in intangible assets	(2.2)	(1.0)	(1.3)	(1.6)	(1.0)	(1.1)	(1.2)
Sale of subsidiary/ Divestiture of interests	0.0	0.0	0.1	0.2	0.0	0.0	0.0
Investments in business activities	(27.9)	0.0	(1.6)	0.0	0.0	0.0	0.0
Repayment of long-term financial receivables	0.0	100.9	(0.3)	(0.1)	0.0	0.0	0.0
CFI	(46.0)	78.9	(15.3)	(19.2)	(29.6)	(20.3)	(28.7)
Increase/ (Decrease) in short-term financial liabilities and receivables	(4.3)	(123.4)	(4.4)	(6.9)	(3.2)	(98.9)	0.0
Increase/ (Decrease) in long-term financial liabilities	(3.0)	(1.1)	0.0	0.0	(6.5)	0.0	0.0
Increase in other long-term liabilities	2.1	(0.2)	(0.4)	(0.3)	(1.3)	0.0	0.0
Dividends to shareholders	(3.9)	(10.9)	(10.8)	(10.8)	(7.8)	(27.0)	(25.2)
CCF	(9.1)	(135.6)	(15.6)	(18.0)	(19.0)	(125.9)	(25.2)
Exchange (losses)/gains	(0.3)	(0.2)	(0.9)	0.2	(0.5)	0.0	0.0
Net change in cash	8.9	4.1	23.2	(21.2)	48.5	(43.1)	9.4
Opening cash balance	80.1	89.0	93.1	116.3	95.1	143.6	100.5
Closing cash balance	89.0	93.1	116.3	95.1	143.6	100.5	110.0

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios							
Sales Growth	14%	(2%)	(15%)	12%	46%	(12%)	0%
Chemistry division	5%	(2%)	(6%)	30%	16%	3%	3%
Paper division	14%	(3%)	(29%)	10%	67%	(27%)	(5%)
Packaging division	17%	0%	6%	5%	35%	6%	5%
Operating Profit Growth	NM	10%	(56%)	NM	NM	(33%)	(29%)
Net Income Growth	165%	14%	(3%)	NM	NM	(23%)	(42%)
Profitability Ratios (%)							
Operating margin	10%	11%	6%	(1%)	16%	12%	8%
Chemistry division	8%	6%	6%	16%	13%	11%	9%
Paper division	10%	12%	(1%)	(11%)	20%	10%	7%
Packaging division	10%	11%	13%	3%	10%	13%	9%
EBITDA Margin %	16%	17%	12%	5%	18%	15%	12%
Net Margin (%)	8%	9%	11%	(31%)	14%	12%	7%
Return Ratios							
Profit Margin	8%	9%	11%	(31%)	14%	12%	7%
Asset Turnover	0.7x	0.7x	0.6x	0.8x	1.2x	1.0x	1.0x
Financial Leverage	1.9x	1.8x	1.5x	1.6x	1.7x	1.5x	1.3x
Dupont ROE (%)	11%	11%	10%	(39%)	28%	18%	10%
ROCE (%)	10%	10%	4%	(1%)	28%	17%	11%
ROA (%)	6%	6%	7%	(24%)	16%	12%	7%
Leverage Ratios							
Debt - Equity Ratio	0.6x	0.3x	0.2x	0.4x	0.2x	0.0x	0.0x
Net Debt - Equity Ratio	0.4x	0.1x	0.0x	0.0x	(0.1x)	(0.2x)	(0.2x)
Interest Coverage	11.8x	9.1x	9.1x	(1.1x)	46.8x	65.3x	1,936x
Liquidity Ratios							
Current Ratio	1.6x	2.8x	3.0x	2.5x	1.6x	2.5x	2.5x
Quick Ratio	1.3x	2.0x	2.2x	1.7x	1.2x	1.7x	1.7x
Valuation Ratios							
EV/EBITDA	5.3x	5.0x	8.0x	17.1x	3.4x	4.7x	6.1x
P/E	10.7x	9.3x	9.6x	NM	4.5x	6.7x	11.6x

Source: Research Dynamics, Bloomberg, Company data

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