

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

FY2023 Results update

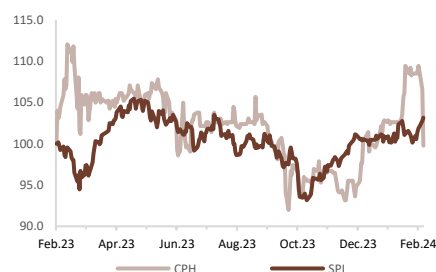
23 February 2024

Company Data

Price:	CHF 86.60
Market Cap:	CHF 519.6mn
Free Float:	11.1%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,184
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2022	2023	2024E	2025E
Sales	725.4	624.0	573.3	641.5
EBITDA %	18.1%	16.3%	8.2%	12.4%
EBIT %	15.5%	13.3%	4.5%	9.0%
Net Margin %	13.9%	12.6%	3.4%	7.7%
Basic EPS	16.83	13.15	3.24	8.21
Diluted EPS	16.83	13.15	3.24	8.21
DPS	4.50	4.00	1.20	1.80
Equity Ratio %	59.8%	72.9%	72.8%	74.2%
Capex	(29.6)	(15.6)	(27.4)	(32.7)
P/Sales	0.7x	0.8x	0.9x	0.8x
P/E	5.0x	6.4x	26.1x	10.3x
EV/EBITDA	3.4x	4.4x	9.2x	5.4x

Source: Research Dynamics, Company data

Next Events

Annual General Meeting	20 Mar 2024
Investor Day	11 June 2024
1H24 Results	18 July 2024

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Resilient performance amidst challenges

Decline in sales and profitability compared to the previous year due to an exceptionally high base effect

In FY2023, the CPH Group (CPH) achieved net sales of CHF 624.0 mn, corresponding to a 14.0% decrease year-on-year (YoY), or -10.4% when adjusted for currency impacts. While the Chemistry and Packaging divisions achieved record sales, the Paper Division saw a notable decline in net sales. EBITDA for the Group amounted to CHF 102.0 mn, down by CHF 29.0 mn compared to previous year while the corresponding margin dropped to 16.3% (FY2022: 18.1%). After accounting for depreciation and amortization of CHF 19.0 mn, Group EBIT was CHF 82.8 mn, while the corresponding margin declined to 13.3% (FY2022: 15.5%). The net after-tax result of CHF 79.9 mn compares to CHF 101.0 mn reported in FY2022. In October 2023, CPH Group utilized its existing cash balances to fully settle its CHF 100.0 mn corporate bond upon maturity. In FY2023, CPH invested CHF 35.0 mn in fixed assets to boost capacities in its Chemistry and Packaging divisions and improve efficiency across all three divisions. Cash flow from operating activities amounted to CHF 110 mn (FY2022: CHF 98.0 mn) and free cash flow rose from CHF 68.0 mn to a CHF 92.0 mn.

Segmental performance

Paper: As expected, net sales of the Paper division in FY2023 were lower than in the previous record year, mainly attributable to lower sales volumes and intense price pressure. At CHF 262.0 mn, the decline was 31.7% YOY (constant currency: -29.1%). The lower topline resulted in an EBITDA decline to CHF 36.6 mn (FY2022: CHF 80.6 mn) while the corresponding margin reduced to 13.9% vs 21.0% in FY2022. Divisional EBIT was CHF 30.5 mn (vs FY2022: 75.1 mn) and the corresponding margin declined to 11.6% compared to 19.5% year ago. Despite the industry demand down by 21.0% in newsprint and -24% in magazine papers in FY2023, the CPH sold 371,000 tonnes of paper in 2023. Additionally, it increased its market share in Europe in an environment marked by fierce price competition.

Chemistry: Net sales increased 12.6% YoY to CHF 124 mn mainly on strong demand for molecular sieves in industrial and energy sectors, as well as for deuterated products in pharmaceuticals, laboratories, and OLED displays. This was slightly offset by declines in demand from the construction and medicinal sectors. The divisional EBITDA reached CHF 22.1 mn, marking a 15.2% YoY increase, with the corresponding margin expanding 40 bps to the high level of 17.8%. The margin growth was supported by expanded capacities at the Rütli site and improved efficiency in US and Chinese operations. In FY2023, EBIT amounted to CHF 15.7 mn, a 14.1% YoY increase and a new record high. The EBIT margin was 12.7%

Packaging: In FY2023, the Packaging division reported net sales of CHF 237.3 mn, an increase of 2.9% YoY as it operated its production facilities at near-full capacity, benefitting from a surge in orders from the previous year. As pharmaceutical procurement returned to normal, order volumes rebounded to pre-COVID levels. The division opened new slitting facilities in Germany and Brazil, thus expanding capacities to address future demand. With high-capacity utilisation and a diverse product mix, the EBITDA increased by 36.7% YoY to CHF 42.8 mn with corresponding margin of 18.1% (FY2022: 13.6%). While the EBIT surged by 52.6% to CHF 36.1 mn, with the corresponding margin expanded by 495 bps to 15.2%.

Outlook for FY2024

With ongoing interest rate hikes aimed at curbing inflation and recent market uncertainties, the outlook for broader business prospects is currently uncertain. Economic instability persists amid ongoing uncertainties and geopolitical conflicts in Eastern Europe, the Middle East, and Asia. These factors further complicate the economic landscape, presenting challenges for businesses as they navigate through FY2024. Consequently, management expressed uncertainties in its guidance, acknowledging the complex and challenging environment the businesses are facing.

Group: Both consolidated EBIT and the net result for the CPH Group are anticipated to fall within the lower double-digit millions for 2024. Additionally, the year should witness increased investments in tangible fixed assets, aimed at boosting plant capacities and improving production efficiencies. These strategic investments underscore the company's commitment to sustainable growth and operational excellence in the upcoming years.

Paper: The demand for graphic paper products is still declining in Europe which is anticipated to weigh on volume growth. In addition, while raw material costs are expected to remain high, energy costs are expected to increase compared to last year. Consequently, in FY2024, the Paper division net sales indicate a further drop on lower demand and expect EBIT below 2023 level. Still, management is confident about a mid-term co-existence of digital and print in newspaper and magazine consumption. The strategic answer to address the challenges of structural demand decline and stable or increasing input costs is to continue to optimize efficiencies and maintain its cost leadership in the addressed European paper markets while peers are exiting the market.

Chemistry: The economic outlook remains uncertain, with several factors contributing to ongoing challenges. Costs of raw materials, especially lithium, and energy are anticipated to remain high, adding pressure to operational expenses. Growing pricing and margin pressures are expected, further squeezing profitability. Consequently, both net sales and EBIT are projected to experience YoY declines. Amidst these challenges, the company is planning a market entry into India, recognizing the potential for growth in this region despite the prevailing uncertainties. As a result of the acquisition (see below), which is expected to close in Q2, we expect the reported divisional sales to be close to the 2023 levels.

Packaging: The global blister packaging market is forecast to witness steady growth, expected to increase by an annual rate of 3%-6% over the next few years. However, in FY2024, Packaging is anticipated to witness slightly lower net sales, assuming a normalisation in customer inventories and raw material prices. Following an exceptional performance in FY2023, EBIT is expected to regress to levels similar to those seen in 2022. Despite these adjustments, the company remains optimistic about its position in the market and its potential for sustained growth.

Noteworthy Events:

CPH Group Chemistry subsidiary Zeochem Expands with Acquisition in India: Zeochem, the Chemistry subsidiary of CPH Chemie + Papier Holding AG, is set to acquire Sorbead India and Swambe Chemicals, located in Vadodara, India. These companies distribute molecular sieves and packaging materials and manufacture chromatography gels used in the packaging and pharmaceutical sectors. Sorbead India and Swambe Chemicals have an annual EBITDA in the lower mid-single-digit millions in USD, employ about 65 staff members, and operate their own production facility in the Indian State of Gujarat. The purchase price has not been disclosed as agreed upon by the parties. The transaction is expected to be finalised in the second quarter of 2024. We expect a smooth integration as the business are complimentary in terms of products and geographic reach and provide Zeochem with a footprint in the Indian growth market, in line with company strategy.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value decline to CHF 92.6 per share over the previous target of CHF 97.8 and implies an upside of 6.9% 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 5.3x (FY2024e), a significant 47.0% discount to the weighted average multiple of division peers.

The global economic outlook indicates a gradual recovery, with the IMF projecting a 3.1% growth in global GDP for 2024. However, near-term challenges loom, as persistent inflationary pressures and geopolitical tensions in Eastern Europe, the Middle East, and Asia may impact the company's trajectory. Furthermore, limitations in raw material availability and constrained pricing dynamics are anticipated to exert downward pressure on margins. Although over the past decade the performance of the Paper Division was volatile and demanding, the supply side squeeze should keep the division's profitability under pressure. 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 Group level and the 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	CY2024E	CY2025E	3 year average	CY2024E	CY2025E	3 year average	CY2024E	CY2025E
CPH Chemie & Paper	5.8x	5.3x	4.8x	0.8x	0.7x	0.7x	8.3x	10.8x	9.4x
Paper peers:									
Holmen	7.8x	12.8x	12.4x	1.0x	2.9x	2.9x	15.2x	21.3x	20.3x
Stora Enso	6.3x	9.5x	7.2x	0.4x	0.9x	0.9x	11.6x	26.3x	14.3x
Altri Sgpps	7.9x	8.4x	7.0x	0.7x	1.2x	1.2x	10.4x	15.5x	11.2x
Metsa Board	5.8x	8.9x	6.6x	0.4x	1.2x	1.1x	15.2x	16.5x	10.3x
Upm-Kymmene	6.1x	9.8x	7.9x	0.5x	1.5x	1.4x	11.3x	15.6x	11.5x
Norske Skogindustrier	NA	NA	NA	NA	NA	NA	88.6x	NA	NA
Cropper (James)	2.6x	0.0x	0.0x	0.3x	0.0x	0.0x	9.1x	6.1x	4.0x
Oji Holdings Corp	NA	NA	NA	NA	0.3x	0.3x	11.6x	8.5x	7.3x
Chemistry peers:									
Honeywell Int.	8.4x	14.2x	13.3x	1.4x	3.3x	3.2x	14.2x	19.9x	18.2x
Clariant	6.6x	NA	NA	0.6x	NA	NA	11.1x	NA	NA
Arkema	5.4x	5.9x	5.5x	0.7x	0.7x	0.7x	9.8x	9.9x	8.8x
Chemours Co/The	7.8x	NA	NA	1.7x	NA	NA	15.9x	NA	NA
Packaging peers:									
Macfarlane Group Plc	5.8x	0.1x	0.1x	0.2x	0.0x	0.0x	7.7x	10.1x	9.9x
Gerresheimer Ag	7.0x	8.8x	7.6x	1.0x	1.4x	1.3x	14.2x	17.0x	13.5x
West Pharmaceutical Services	9.9x	31.5x	26.6x	1.7x	9.0x	8.3x	20.1x	48.2x	40.5x
Convertidora Industrial Sa-A	8.4x	NA	NA	0.4x	NA	NA	NA	NA	NA
Psb Industries	4.6x	NA	NA	0.4x	NA	NA	8.1x	NA	NA
Bilcare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	6.3x	8.9x	7.2x	0.5x	1.2x	1.1x	11.4x	16.0x	11.4x
High	9.9x	31.5x	26.6x	1.7x	9.0x	8.3x	88.6x	48.2x	40.5x
Low	2.6x	0.0x	0.0x	0.2x	0.0x	0.0x	2.7x	6.1x	4.0x
Premium (disc) to peers	(7%)	(40%)	(33%)	55%	(38%)	(39%)	(28%)	(33%)	(17%)

Source: Bloomberg and Thomson Eikon (as on 22 February 2024)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2024E	CY2025E	3 year average	CY2024E	CY2025E	3 year average	CY2024E	CY2025E
Weighted peer multiples	7.8x	10.0x	8.6x	0.7x	1.9x	1.8x	16.3x	18.1x	14.3x
CPH	5.8x	5.3x	4.8x	0.8x	0.7x	0.7x	8.3x	10.8x	9.4x
Premium (disc) to peers	(27%)	(47%)	(44%)	11%	(61%)	(61%)	(49%)	(40%)	(34%)

Source: Bloomberg and Thomson Eikon (as on 22 February 2024)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Chemistry sales	78	73	95	110	124	120	125
Paper sales	293	210	231	384	262	218	270
Packaging sales	153	162	171	231	237	235	247
Net Sales	525	445	497	725	624.0	573.3	641.5
Cost of Sales	(298)	(255)	(336)	(431)	(364)	(378)	(398)
Gross profit	227	190	161	294	260	195	244
Personnel cost	(93)	(93)	(92)	(102)	(103)	(95)	(106)
Outsourced maintenance/repairs	(20)	(17)	(18)	(28)	(22)	(22)	(24)
Other operating expense	(26)	(25)	(25)	(34)	(33)	(32)	(34)
Total operating costs	(139)	(135)	(135)	(163)	(158)	(148)	(164)
EBITDA	88	55	26	131	102	47	80
Depreciation on tangible fixed assets	(30)	(29)	(27)	(16)	(18)	(20)	(21)
Depreciation on intangible assets	(1)	(1)	(1)	(2)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	57	25	(3)	112	83	26	58
Impairment	0	0	(150)	0	0	0	0
Operating profit (EBIT)	57	25	(153)	112	83	26	58
Finance costs	(6)	(5)	(5)	(4)	(4)	0	0
Finance income	0	0	1	0	1	0	0
Total financial income (expenses)	(6)	(5)	(4)	(4)	(3)		
Profit before taxes (before exceptional items)	51	20	(157)	108	80	26	58
Non-operating items	1	19	7	(8)	12	0	0
Income taxes	(3)	8	(2)	1	(13)	(6)	(9)
Profit attributable to the parent	48	47	(152)	101	79	19	49
Basic EPS	8.1	7.8	(25.3)	16.8	13.2	3.2	8.2
Diluted EPS	8.1	7.8	(25.3)	16.8	13.2	3.2	8.2
DPS	1.8	1.8	1.3	4.5	4.0	1.2	1.8

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY19	FY20A	FY21A	FY22A	FY23	FY24E	FY25E
Assets							
Non-current assets							
PPE	366.4	352.6	196.5	213.7	222.0	228.6	240.1
Intangible assets	5.6	5.6	5.8	4.5	3.9	3.5	3.2
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	54.0	64.8	58.4	55.8	56.3	56.3	56.3
Total non-current assets	436.0	432.9	270.7	284.0	292.2	298.5	309.6
Current assets							
Inventories	78.5	78.3	87.5	113.1	102.1	102.0	116.2
Trade accounts receivable	72.4	52.9	69.3	93.9	71.1	73.8	82.6
Other receivables	14.0	17.2	28.5	21.9	19.3	16.3	16.3
Prepaid expenses and accrued income	8.6	6.7	9.2	9.6	5.8	5.8	5.8
Short-term financial receivables	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Liquid funds and Securities	93.1	116.3	95.1	143.6	107.6	96.7	108.0
Total assets	702.7	704.2	560.4	666.2	598.2	593.2	638.5
Shareholders' Equity and Liabilities							
Share capital	12.0	1.2	1.2	1.2	1.2	1.2	1.2
Capital reserves	4.2	4.2	(0.1)	(0.1)	(0.5)	(0.5)	(0.5)
Profit reserves	375.2	418.5	459.5	397.1	435.5	411.5	423.8
Net result for the year	48.3	46.9	(151.6)	0.0	0.0	19.4	49.3
Non-current liabilities							
Long-term financial liabilities	116.8	109.7	106.6	0.0	0.0	0.0	0.0
Pension scheme liabilities	0.7	1.2	1.4	1.7	0.0	0.0	0.0
Other long-term liabilities	0.6	0.4	0.3	0.0	0.0	0.0	0.0
Long-term provisions	47.5	31.5	24.1	31.4	41.3	38.3	38.3
Current liabilities							
Trade accounts payable	66.3	56.8	84.8	93.0	71.0	74.3	77.5
Other payables	3.6	4.6	3.9	6.5	7.7	7.7	7.7
Accrued liabilities and deferred income	16.3	16.8	18.3	27.2	32.3	32.3	32.3
Short-term financial liabilities	5.9	8.1	3.2	98.9	0.7	0.0	0.0
Short-term provisions	3.8	3.3	7.4	7.8	8.8	8.8	8.8
Total liabilities	261.4	232.4	249.9	266.6	161.9	161.5	164.7
Total equity and liab.	702.7	704.2	560.4	666.2	598.2	593.2	638.5

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net profit for the period	48.5	47.0	(151.4)	101.0	79.0	19.4	49.3
Non-cash adjustments:	31.2	(2.2)	169.5	28.4	11.3	21.2	21.6
Change in CA and CL:							
(Increase)/ decrease in inventories	(10.2)	(4.1)	(9.6)	(27.2)	7.4	0.1	(14.2)
Decrease in trade accounts receivable	(1.3)	20.5	(15.5)	(26.7)	18.7	(2.7)	(8.8)
Increase/ (decrease) in trade accounts payable	(2.8)	(9.0)	30.7	6.9	(17.1)	3.3	3.2
Other changes in working capital	(4.3)	2.8	(7.9)	15.3	10.5	0.0	0.0
CFO	61.0	55.0	15.8	97.6	109.9	41.2	51.1
Investments in tangible fixed assets	(21.9)	(17.5)	(23.0)	(32.9)	(33.8)	(26.6)	(32.0)
Disposals of tangible fixed assets	0.8	5.2	5.2	4.3	19.1	0.0	0.0
Investments in intangible assets	(1.0)	(1.3)	(1.6)	(1.0)	(0.9)	(0.8)	(0.7)
Sale of subsidiary/ Divestiture of interests	0.0	0.1	0.2	0.0	0.0	0.0	0.0
Investments in business activities	0.0	(1.6)	0.0	0.0	(2.4)	0.0	0.0
Repayment of long-term financial receivables	100.9	(0.3)	(0.1)	0.0	0.0	0.0	0.0
CFI	78.9	(15.3)	(19.2)	(29.6)	(18.0)	(27.4)	(32.7)
Increase/ (Decrease) in short-term financial liabilities and receivables	(123.4)	(4.4)	(6.9)	(3.2)	0.7	(0.7)	0.0
Increase/ (Decrease) in long-term financial liabilities	(1.1)	0.0	0.0	(6.5)	0.0	0.0	0.0
Increase in other long-term liabilities	(0.2)	(0.4)	(0.3)	(1.3)	(98.7)	0.0	0.0
Dividends to shareholders	(10.9)	(10.8)	(10.8)	(7.8)	(27.0)	(24.0)	(7.2)
CFF	(135.6)	(15.6)	(18.0)	(19.0)	(125.7)	(24.7)	(7.2)
Exchange (losses)/gains	(0.2)	(0.9)	0.2	(0.5)	(2.2)	0.0	0.0
Net change in cash	4.1	23.2	(21.2)	48.5	(36.0)	(10.9)	11.2
Opening cash balance	89.0	93.1	116.3	95.1	143.6	107.6	96.7
Closing cash balance	93.1	116.3	95.1	143.6	107.6	96.7	108.0

Key Ratios

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth Ratios							
Sales Growth	(2%)	(15%)	12%	46%	(14%)	(8%)	12%
Chemistry division	(2%)	(6%)	30%	16%	13%	(3%)	4%
Paper division	(3%)	(29%)	10%	67%	(32%)	(17%)	24%
Packaging division	0%	6%	5%	35%	3%	(1%)	5%
Operating Profit Growth	10%	(56%)	NM	NM	(26%)	(69%)	124%
Net Income Growth	14%	(3%)	NM	NM	(22%)	(75%)	153%
Profitability Ratios (%)							
Operating margin (before impairment) (%)	11%	6%	(1%)	16%	13%	5%	9%
Chemistry division	6%	6%	16%	13%	13%	11%	12%
Paper division	12%	(1%)	(11%)	20%	12%	(7%)	6%
Packaging division	11%	13%	3%	10%	15%	12%	12%
EBITDA Margin %	17%	12%	5%	18%	16%	8%	12%
Net Margin (%)	9%	11%	(31%)	14%	13%	3%	8%
Return Ratios							
Profit Margin	9%	11%	(31%)	14%	13%	3%	8%
Asset Turnover	0.7x	0.6x	0.8x	1.2x	1.0x	1.0x	1.0x
Financial Leverage	1.8x	1.5x	1.6x	1.7x	1.5x	1.4x	1.4x
Dupont ROE (%)	11%	10%	(39%)	28%	19%	4%	11%
ROCE (%)	10%	4%	(1%)	28%	19%	6%	12%
ROA (%)	6%	7%	(24%)	16%	12%	3%	8%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.2x	0.4x	0.2x	0.0x	0.0x	0.0x
Net Debt - Equity Ratio	0.1x	0.0x	0.0x	(0.1x)	(0.2x)	(0.2x)	(0.2x)
Interest Coverage	9.1x	9.1x	(1.1x)	46.8x	31.7x	385.8x	961.7x
Liquidity Ratios							
Current Ratio	2.8x	3.0x	2.5x	1.6x	2.5x	2.4x	2.6x
Quick Ratio	2.0x	2.2x	1.7x	1.2x	1.7x	1.6x	1.7x
Valuation Ratios							
EV/EBITDA	5.1x	8.1x	17.4x	3.4x	4.4x	9.2x	5.4x
P/E	10.4x	10.7x	NM	5.0x	6.4x	26.1x	10.3x

Source: Research Dynamics, Bloomberg, Company data

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