

# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## 1H 2015 earnings update

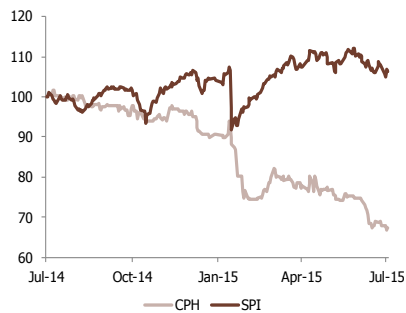
23 July 2015

### Company Data

Price:	CHF 40
Market Cap:	CHF 240mn
Free Float:	96%
No. of shares:	6.0mn
Av. traded volume (1 year):	213
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

### Share Price Development



Source: Bloomberg

### Key Financial Data

	2013	2014	2015E	2016E
Sales	481.3	492.5	421.9	432.0
EBITDA %	6.4	10.3	2.4	4.7
EBIT %	-5.5	3.3	-5.7	-3.1
Net Margin %	-56.4	2.1	-8.2	-4.1
Basic EPS	-45.2	1.8	-5.8	-3.0
Diluted EPS	-45.2	1.8	-5.8	-3.0
DPS	0.65	0.65	0.0	0.0
Equity Ratio %	32.4	34.1	33.4	33.9
Capex	17.8	19.4	27.6	19.4
P/E	NM	22.9x	NM	NM
EV/EBITDA	13.7x	6.2x	31.4x	15.6x

### Next Events

Annual Results Conference & Investor Meeting	26 February 2016
44 <sup>th</sup> Ordinary General Meeting	23 March 2016

### Analysts

Doris Rudischnauer  
dru@researchdynamics.ch

Alexandre Müller  
amu@researchdynamics.ch

Tel: +41 43 268 3232

[www.researchdynamics.ch](http://www.researchdynamics.ch)

## Currency headwind shadows growth

CPH Chemie + Papier Holding AG (CPH/the group) is a diversified industrial group with presence in paper, chemical products and pharma packaging films industries. CPH generates around 60% of its revenues from the Paper division, where almost all sales come from Europe. CPH is one of 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 PVdC coated high-barrier films. The Chemistry division produces molecular sieves and has a global exposure. In 1H2015, CPH's net sales stood at CHF 199.3mn with an employee headcount of 854.

### CHF/EUR floor abolishment weighs on 1H 2015 result

As a positive, product volumes growth was witnessed in all three of CPH's businesses (y/y) during the first half of 2015. However, the rise was overshadowed by a 13% y/y decline in the value of Euro vs. CHF. The pressure was augmented by the weakness in paper prices. With around two-thirds of the group's revenues coming from the Paper division, and Europe being the key end market, CPH's net sales declined 18% y/y. The group's revenues in 1H2015 stood at CHF 199.3 million. With a majority of operating costs incurred in CHF, EBIT came in red, a loss of CHF 18.5 million (EBIT margin: -9.3%). Consequently, CPH reported a negative net income of CHF 28.7 million. The numbers include a CHF 14.2 million one-off charge due to the currency impact of which CHF 6.5 million was taken at the EBIT level and CHF 7.7 million was charged to the financial result.

### Segmental performance

**Paper:** Dampened demand (decline by 5-10% y/y) in the newsprint and magazine paper industry and inadequate reduction in capacities resulted in further price declines for the division. Still utilization rates were decent, especially the newsprint section, increasing sales volumes y/y. However, the downward pricing pressure and the appreciation of CHF negatively impacted the division's revenues, which declined by 25.6% y/y to CHF 114 million. Cost optimization initiatives that management started in FY2014 in the form of transition to free energy market, Renergia cooperation, increased usage of recycled paper from the domestic market and employee base optimization, helped the division save costs to a tune of around CHF 10 million. As a result, the division reported a loss before interest and taxes (negative EBIT) of CHF 19.8 million in 1H2015 vs. an EBIT of CHF 8.8 million in the same period a year ago.

**Packaging:** While demand for packaging products was strong in the high-growth markets of Asia and Latin America, the important European markets saw a more sluggish development. Still, the division was able to achieve a nominal volume growth, but this was more than offset by the stronger CHF. Compared to the prior year period revenues declined by 9.6% to CHF 55.3 million. However, lower input material costs and a drop in employee headcount lead to better profitability. The division's EBIT rose 10.2% y/y to CHF 2.5 million, with EBIT margin improving ~80bps y/y to 4.5% in 1H2015.

**Chemistry:** Demand for the division's products catering to the natural gas, medical oxygen and zeolites production industries was strong during the first half 2015, boosting sales volumes. Geographically, developments were positive in North America and Asia while Europe continued to remain challenging. Improved sales volumes y/y and a diversified revenue base more than offset downward pressure from the CHF appreciation. The division's revenues climbed 5.1% y/y to CHF 30 million in 1H2015. Improved efficiency measures coupled with costs reduction in input procurements helped lower negative EBIT. Losses before interest and taxes (negative EBIT) stood at CHF 1.4 million in 1H2015 compared to a negative EBIT of CHF 1.5 million during the prior year period.

### Guidance

**Paper:** CPH has stated that its Paper division could benefit from higher magazine paper prices in Europe expected for the second half. However, forecasting newsprint paper price developments would be difficult at this time. On the costs side, the division would benefit from steam procurement from Renergia, which began in 2Q2015, and other measures. Taking all into account, the group expects the division's FY2015 revenues to decline y/y along with a negative EBIT.

**Packaging:** For FY2015, the group expects revenues to fall y/y; however, due to efficiency enhancement initiatives, management expects the division to report EBIT comparable to that of FY2014 levels. Regarding its expansion in China, CPH stated that construction works at the facility are moving in line with the planned schedule and production should begin around 2H2016.

**Chemistry:** CPH expects revenues and EBIT for FY2015 to be broadly in line with FY2014 levels as improved volumes are expected to be offset by price pressures from European and Chinese manufacturers.

- Changes to our forecasts**

After a careful assessment of guidance, we have revised our revenue forecast for CPH. We now expect the group to report net sales of CHF 421.9 million vs. CHF 445.6 million forecasted earlier. On the similar lines, we anticipate a higher negative EBIT of CHF 24.1 million vs. a negative EBIT of CHF 18 million.

- Valuation and conclusion**

CPH's lower sales y/y has been primarily the a result of the strong appreciation of the CHF as well as lower paper prices, which offset higher sales volumes. Structural changes in the paper industry across Europe has also been a downward contributing factor. These coupled with a majority of expenses being incurred in CHF resulted in a negative EBIT despite having cost savings of approximately CHF 30 million (y/y) coming from improved productivity, higher-margin products, transition to free electricity market and Renergia initiative. This is assuming the exchange rate and paper prices remaining constant.

CPH currently trades at 1% discount (3-year historical forward P/S). However, lower EBITDA and net income on account of a majority of costs incurred in the appreciated currency has led to a premium of 109% and 40% based on 3-year historical forward EV/EBITDA and P/E.

While the challenging developments especially at the Paper division have been reflected in the share price trend, we believe it will take some patience for the shares to recover in the medium-term.

**Exhibit 1: CPH – Comparison with division peers**

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E
CPH Chemie & Paper	14.1x	31.4x	15.6x	0.6x	0.6x	0.6x	19.0x	NM	NM
<b>Paper peers:</b>									
Holmen	8.4x	9.5x	9.3x	1.1x	1.5x	1.5x	16.0x	17.6x	16.7x
Stora Enso	6.6x	7.2x	7.0x	0.5x	0.7x	0.7x	12.6x	13.2x	12.2x
Altri	7.7x	8.2x	7.6x	0.9x	1.1x	1.1x	9.3x	9.6x	9.5x
Metsa Board	6.1x	9.1x	8.2x	0.5x	1.1x	1.1x	15.3x	18.7x	15.2x
UPM-Kymmene	5.2x	8.3x	8.1x	0.6x	0.9x	0.9x	11.9x	13.9x	13.4x
Norsk Skogindustrier	NA	8.4x	9.3x	NA	0.1x	0.1x	30.0x	-4.4x	-4.3x
James Cropper	5.7x	0.1x	0.1x	0.3x	0.0x	0.0x	9.7x	11.7x	9.4x
OJI Holdings	NA	9.8x	9.2x	NA	0.4x	0.4x	13.0x	16.3x	13.4x
<b>Chemistry peers:</b>									
Honeywell Int.	9.0x	10.1x	9.2x	1.7x	2.0x	1.9x	15.3x	17.0x	15.3x
Clariant	7.3x	8.3x	7.7x	0.8x	1.0x	0.9x	12.7x	15.4x	13.3x
Arkema	5.7x	6.2x	5.5x	0.7x	0.6x	0.6x	11.3x	15.0x	12.3x
WR Grace & Co.	9.2x	11.1x	10.2x	1.9x	2.2x	2.1x	17.9x	20.6x	17.7x
<b>Packaging peers:</b>									
Meadwestwaco	8.3x	10.1x	9.5x	1.2x	1.6x	1.5x	20.6x	24.8x	21.7x
MacFarlane Group	6.2x	0.1x	0.1x	0.3x	0.0x	0.0x	8.8x	9.3x	8.5x
Gerresheimer	7.4x	8.0x	7.5x	1.1x	1.2x	1.2x	15.1x	17.3x	15.7x
West Pharmaceutical Services	11.1x	13.4x	11.7x	2.0x	2.7x	2.5x	22.9x	29.6x	24.1x
Convertidora Industrial	8.3x	7.3x	7.5x	0.4x	0.4x	0.4x	NA	NA	NA
PSB Industries	5.0x	5.6x	5.2x	0.5x	0.6x	0.6x	8.9x	11.6x	10.4x
Astrapak Ltd	4.7x	0.0x	0.0x	0.3x	0.0x	0.0x	110.5x	10.2x	6.4x
Bicacre Ltd	3.0x	NA	NA	0.1x	NA	NA	1.9x	NA	NA
Median	7.0x	8.3x	7.7x	0.7x	0.9x	0.9x	13.0x	15.2x	13.3x
High	11.1x	13.4x	11.7x	2.0x	2.7x	2.5x	110.5x	29.6x	24.1x
Low	3.0x	0.0x	0.0x	0.1x	0.0x	0.0x	1.9x	-4.4x	-4.3x
Premium (disc) to peers	102%	279%	104%	(4%)	(38%)	(39%)	46%	NM	NM

Source: Bloomberg (as on 21 July 2015)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E
Weighted peer multiples	6.7x	8.2x	8.0x	0.6x	0.8x	0.8x	13.6x	14.2x	13.1x
CPH	14.1x	31.4x	15.6x	0.6x	0.6x	0.6x	19.0x	NM	NM
Premium (disc) to peers	109%	284%	96%	(1%)	(33%)	(32%)	40%	NM	NM

Source: Bloomberg (as on 21 July 2015)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Chemistry sales	97	101	68	59	60	60	62
Paper sales	218	315	314	306	314	251	256
Packaging sales	102	106	106	116	118	111	114
<b>Net Sales</b>	<b>417</b>	<b>521</b>	<b>489</b>	<b>481</b>	<b>492</b>	<b>422</b>	<b>432</b>
Cost of Sales	(259)	(338)	(325)	(323)	(313)	(286)	(289)
<b>Gross profit</b>	<b>158</b>	<b>182</b>	<b>163</b>	<b>158</b>	<b>180</b>	<b>136</b>	<b>143</b>
Personnel cost	(89)	(93)	(85)	(86)	(88)	(87)	(84)
Outsourced maintenance/repairs	(17)	(20)	(19)	(19)	(18)	(17)	(17)
Other operating expense	(23)	(23)	(21)	(22)	(23)	(22)	(21)
<b>Total operating costs</b>	<b>(129)</b>	<b>(136)</b>	<b>(125)</b>	<b>(127)</b>	<b>(129)</b>	<b>(126)</b>	<b>(123)</b>
<b>EBITDA</b>	<b>29</b>	<b>47</b>	<b>38</b>	<b>31</b>	<b>51</b>	<b>10</b>	<b>20</b>
Depreciation on tangible fixed assets	(58)	(65)	(59)	(57)	(34)	(34)	(33)
Depreciation on intangible assets	(2)	(2)	(2)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>(31)</b>	<b>(20)</b>	<b>(22)</b>	<b>(27)</b>	<b>16</b>	<b>(24)</b>	<b>(14)</b>
Impairment	0	0	0	(251)	0	0	0
<b>Operating profit (EBIT)</b>	<b>(31)</b>	<b>(20)</b>	<b>(22)</b>	<b>(278)</b>	<b>16</b>	<b>(24)</b>	<b>(14)</b>
Finance costs	(10)	(13)	(7)	(5)	(7)	(13)	(5)
Finance income	1	1	1	1	2	1	0
<b>Total financial income (expenses)</b>	<b>(9)</b>	<b>(12)</b>	<b>(6)</b>	<b>(4)</b>	<b>(6)</b>	<b>(12)</b>	<b>(5)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>(40)</b>	<b>(32)</b>	<b>(28)</b>	<b>(281)</b>	<b>10</b>	<b>(36)</b>	<b>(19)</b>
Non-operating items	13	12	38	2	1	0	0
Income taxes	7	2	(2)	8	(1)	2	1
<b>Profit attributable to the parent</b>	<b>(20)</b>	<b>(18)</b>	<b>8</b>	<b>(271)</b>	<b>11</b>	<b>(35)</b>	<b>(18)</b>
<b>Basic EPS</b>	<b>(3.3)</b>	<b>(3.0)</b>	<b>1.3</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.8)</b>	<b>(3.0)</b>
<b>Diluted EPS</b>	<b>(3.3)</b>	<b>(3.0)</b>	<b>1.3</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.8)</b>	<b>(3.0)</b>
<b>DPS</b>	<b>0.0</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.0</b>	<b>0.0</b>

Source: Research Dynamics, Company data

### Balance Sheet

CHF mn	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	853.9	769.2	719.7	433.7	419.1	413.2	399.5
Intangible assets	3.8	2.9	1.5	1.2	1.3	1.4	1.5
Long-term financial assets	0.0	0.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.1	2.5	0.0	0.0	2.8	2.8	2.8
Other non-current assets	26.1	23.9	21.2	22.4	22.7	22.7	22.7
<b>Total Non Current Assets</b>	<b>883.9</b>	<b>798.5</b>	<b>752.4</b>	<b>467.3</b>	<b>456.0</b>	<b>450.1</b>	<b>436.5</b>
<b>Current assets</b>							
Inventories	63.7	57.3	58.8	56.9	63.4	54.0	55.3
Trade accounts receivable	60.9	75.6	74.0	70.8	79.5	80.9	65.1
Other receivables	19.5	13.2	10.7	7.3	7.7	7.7	7.7
Prepaid expenses and accrued income	4.6	3.9	3.0	5.3	6.6	6.6	6.6
Short-term financial receivables	0.3	0.9	0.2	0.0	0.1	0.1	0.1
Liquid funds and Securities	73.6	42.6	73.3	74.2	75.1	31.3	42.7
<b>Total assets</b>	<b>1106.5</b>	<b>992.1</b>	<b>972.4</b>	<b>681.8</b>	<b>688.4</b>	<b>630.7</b>	<b>614.1</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Capital reserves	13.3	24.0	20.1	16.2	12.3	8.4	8.4
Profit reserves	686.9	670.3	651.6	659.5	389.2	399.7	364.9
Net result for the year	(20.0)	(18.0)	8.1	(271.5)	10.5	(34.8)	(17.9)
<b>Non-current liabilities</b>							
Long-term financial liabilities	225.9	169.3	144.0	117.9	128.0	127.6	128.0
Pension scheme liabilities	0.3	0.6	0.5	0.7	0.6	0.6	0.6
Other long-term liabilities	0.1	0.0	0.0	2.5	2.4	2.4	2.4
Long-term provisions	40.6	32.0	31.3	21.3	20.8	20.8	20.8
<b>Current liabilities</b>							
Trade accounts payable	93.6	40.0	52.9	59.4	53.8	50.9	52.1
Other payables	3.5	6.9	2.6	4.4	3.9	3.9	3.9
Accrued liabilities and deferred income	8.8	12.7	15.8	11.0	9.1	9.1	9.1
Short-term financial liabilities	12.7	11.3	9.8	23.0	22.6	7.0	6.6
Short-term provisions	10.9	12.9	5.7	7.2	5.1	5.1	5.1
<b>Total liabilities</b>	<b>396.3</b>	<b>285.8</b>	<b>262.6</b>	<b>247.5</b>	<b>246.4</b>	<b>227.4</b>	<b>228.7</b>
<b>Total equity and liab.</b>	<b>1106.5</b>	<b>992.1</b>	<b>972.4</b>	<b>681.8</b>	<b>688.4</b>	<b>630.7</b>	<b>614.1</b>

Source: Research Dynamics, Company data

### Cash Flow Statement

CHF mn	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Net profit for the period	(20.0)	(18.0)	8.1	(271.5)	10.5	(34.8)	(17.9)
Non-cash adjustments:	28.7	47.9	20.8	298.8	30.3	34.1	33.7
<b>Change in current assets and liabilities:</b>							
(Increase)/ decrease in inventories	(6.5)	(2.7)	(1.7)	(2.6)	(5.5)	9.3	(1.3)
Decrease in trade accounts receivable	2.1	(20.2)	1.3	3.4	(11.2)	(1.4)	15.8
Increase/ (decrease) in trade accounts payable	65.3	(52.0)	13.0	6.4	(5.8)	(2.9)	1.2
Other changes in working capital	9.9	27.5	0.8	(3.0)	1.5	-	-
<b>Cash flows from operating activities</b>	<b>79.4</b>	<b>(17.5)</b>	<b>42.3</b>	<b>31.4</b>	<b>19.8</b>	<b>4.3</b>	<b>31.6</b>
Investments in tangible fixed assets	(220.9)	(24.4)	(10.9)	(18.2)	(19.2)	(27.6)	(19.4)
Disposals of tangible fixed assets	24.9	39.9	30.1	0.9	0.4	-	-
Investments in intangible assets	(0.3)	(1.4)	(0.3)	(0.5)	(0.6)	(0.7)	(0.7)
Sale of subsidiary/ Divestiture of interests	-	33.1	-	-	-	-	-
Repayment of long-term financial receivables	0.1	0.1	2.5	0.0	-	-	-
<b>Cash flow generated (used) in investment act.</b>	<b>(196.1)</b>	<b>47.4</b>	<b>21.4</b>	<b>(17.8)</b>	<b>(19.4)</b>	<b>(28.3)</b>	<b>(20.1)</b>
Increase/ (Decrease) in short-term financial liabilities and receivables	-	3.7	(1.5)	(2.0)	(0.4)	(15.6)	(0.4)
Increase/ (Decrease) in long-term financial liabilities	114.9	(56.2)	(25.1)	(10.8)	9.8	(0.4)	0.4
Increase in other long-term liabilities	(0.6)	(0.0)	0.0	2.5	(0.2)	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(9.0)	-	(3.9)	(3.9)	(3.9)	(3.9)	-
<b>Cash flow generated (used) in financing act.</b>	<b>105.3</b>	<b>(52.6)</b>	<b>(30.6)</b>	<b>(14.2)</b>	<b>5.3</b>	<b>(19.9)</b>	<b>(0.0)</b>
Exchange (losses)/gains	(1.1)	(0.1)	0.1	(0.2)	0.2	-	-
<b>Net change in cash</b>	<b>(12.5)</b>	<b>(22.8)</b>	<b>33.2</b>	<b>(0.7)</b>	<b>6.0</b>	<b>(43.9)</b>	<b>11.5</b>
Opening cash balance	41.0	28.4	5.6	38.8	38.1	44.0	0.1
<b>Closing cash balance</b>	<b>28.4</b>	<b>5.6</b>	<b>38.8</b>	<b>38.1</b>	<b>44.0</b>	<b>0.1</b>	<b>11.6</b>

Source: Research Dynamics, Company data

### Key Ratios

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
<b>Growth Ratios</b>							
Sales Growth	(13%)	25%	(6%)	(2%)	2%	(14%)	2%
Chemistry division	(21%)	3%	(33%)	(13%)	2%	0%	3%
Paper division	(16%)	44%	(0%)	(3%)	3%	(20%)	2%
Packaging division	4%	4%	1%	9%	1%	(6%)	3%
Operating Profit Growth	NM	NM	NM	NM	NM	NM	NM
Net Income Growth	NM	NM	NM	NM	NM	NM	NM
<b>Profitability Ratios (%)</b>							
Operating margin (before impairment) (%)	(7%)	(4%)	(5%)	(6%)	3%	(6%)	(3%)
Chemistry division	(3%)	1%	(0%)	(9%)	(4%)	(4%)	(3%)
Paper division	(13%)	(8%)	(8%)	(10%)	4%	(11%)	(6%)
Packaging division	1%	4%	5%	6%	4%	5%	2%
EBITDA Margin %	7%	9%	8%	6%	10%	2%	5%
Net Margin (%)	(5%)	(3%)	2%	(56%)	2%	(8%)	(4%)
<b>Return Ratios</b>							
Profit Margin	(5%)	(3%)	2%	(56%)	2%	(8%)	(4%)
Asset Turnover	0.4x	0.5x	0.5x	0.6x	0.7x	0.6x	0.7x
Financial Leverage	1.4x	1.5x	1.4x	1.4x	1.6x	1.6x	1.6x
Dupont ROE (%)	(3%)	(3%)	1%	(47%)	2%	(8%)	(5%)
ROCE (%)	(3%)	(2%)	(3%)	(5%)	3%	(5%)	(3%)
ROA (%)	(2%)	(2%)	1%	(33%)	2%	(5%)	(3%)
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.3x	0.3x	0.2x	0.3x	0.3x	0.3x	0.3x
Net Debt - Equity Ratio	0.3x	0.2x	0.1x	0.2x	0.2x	0.3x	0.3x
Interest Coverage	(6.9x)	(2.0x)	(3.2x)	(6.0x)	5.2x	(1.7x)	(2.4x)
<b>Liquidity Ratios</b>							
Current Ratio	1.7x	2.3x	2.5x	2.0x	2.5x	2.4x	2.3x
Quick Ratio	1.2x	1.6x	1.9x	1.5x	1.8x	1.7x	1.6x
<b>Valuation Ratios</b>							
EV/EBITDA	23.4x	9.4x	12.3x	13.7x	6.2x	31.4x	15.6x
P/E	NM	NM	48.4x	NM	22.9x	NM	NM
P/BV	0.7x	0.4x	0.5x	0.8x	0.5x	0.6x	0.6x

Source: Research Dynamics, Bloomberg, Company data

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**Dynamics Group AG**

Utoquai 43  
CH-8008 Zürich  
Tel. +41 43 268 32 32  
Fax +41 43 268 32 39

Zeughausgasse 22  
CH-3011 Bern  
Tel. +41 31 312 28 41  
Fax +41 31 312 28 49

21, rue des Caroubiers  
CH-1227 Carouge/GE  
Tel. +41 22 308 62 20  
Fax +41 22 308 62 36

[contact@dynamicsgroup.ch](mailto:contact@dynamicsgroup.ch)

[www.dynamicsgroup.ch](http://www.dynamicsgroup.ch)