

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Company update

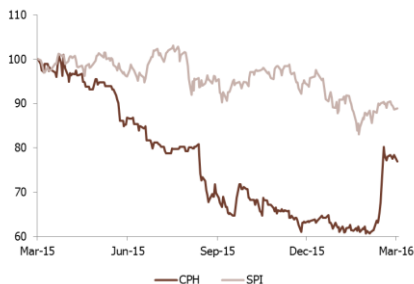
22 March 2016

Company Data

Price:	CHF 38.10
Market Cap:	CHF 228.6mn
Free Float:	43%
No. of shares:	6.0mn
Avg. traded volume (1 year):	724
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2014	2015	2016E	2017E
Sales	492.5	420.0	441.4	465.4
EBITDA %	10.3	2.9	7.7	11.1
EBIT %	3.3	-5.2	0.2	3.0
Net Margin %	2.1	-7.9	-0.9	1.8
Basic EPS	1.75	-5.52	-0.70	1.42
Diluted EPS	1.75	-5.52	-0.70	1.42
DPS	0.65	0.60	-	0.50
Equity Ratio %	64.21	64.54	63.82	64.12
Capex	19.4	22.0	44.3	20.8
P/E	22.9	NM	NM	27.2
EV/EBITDA	6.2	25.8	9.1	6.1

Next Events

AGM	23 March 2016
1H16 results	July 2016

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Sale of Uetikon site to Canton of Zurich

CPH Chemie + Paper Holding AG (CPH/the group) is an international company operating across the three segments Paper, Packaging and Chemistry, with a presence in various countries. The Paper division has been the largest contributor to revenues for CPH with close to 60% of the total revenues generated. Europe is the biggest contributing region for its products. CPH is one of the only two newsprint producing companies in the Swiss market and the only magazine paper producer in the country.

Successful conclusion of lengthy negotiations

CPH Group had been in discussions about the future of its Uetikon site for some time, not least due to the challenging situation of the Switzerland-based manufacturing location for its Chemistry products. While talks with the community of Uetikon for a mixed usage of the site failed due to exaggerated demands from various interest groups within the community as well as questions of competence over the lake bed adjacent to the site close to a decade ago, CPH now was able to negotiate a good solution for all parties involved. As the need for a new high school ("Kantonsschule") on the right side of Lake Zurich has mounted due to the expected increasing number of students (+25% until 2027), the Canton of Zurich has evaluated a number of possible sites. Uetikon now comes out as the winning contender not least thanks to the well-developed location approximately in the middle of the right Lake Zurich shore. As a result, the Canton of Zurich is now purchasing 65,000 square metres of industrial land from the CPH group for a total sales price of CHF 52 mn of which the Canton will hold back CHF 32 mn for environmental clean-up of the site and the adjacent lake bed.

Implications for CPH's Chemistry division

For a two-year period, CPH can continue with its current activities (R&D, production and administration) on the site thanks to a lease-back contract with the Canton. In the meantime, the Chemistry division is considering relocation options for the manufacturing of molecular sieves, chromatography gels and deuterated solvents. The fertilizer production will be ceased in the medium-term, affecting 11 positions. Financially, deducting the environmental clean-up costs from the sales price, the resulting difference of CHF 20 mn fully covers write downs and all other costs. As these costs have not yet been quantified by the company, we leave our estimates unchanged for the moment. While revenues should be less affected by the move, there still should be a positive impact on the results line in 2016. As such, we would expect that the Group can generate a net profit in 2016 in the single-digit range (vs. our current estimate of a net loss of CHF 4 mn).

Strategically sensible move

While the sale of land that was at the origins of the company's foundation in 1818 may have been an emotionally engaging process for the family, who stills own 49.9% of CPH through UBV Uetikon Betriebs- und Verwaltungs AG, we believe it is the most sensible solution given the current market environment. The step opens up options to relocate manufacturing to more competitive locations, also bringing products closer to customers. As such, the Chemistry division recently concluded the acquisition of China-based ALSIO, creating new production capacities for molecular sieves. While during the transition phase some of the orders may be processed by the US facility in Louisville, KY, we expect that after the closure of the Uetikon site foreseen in two years period the Chemistry division will be serving the European and Asian markets mostly out of China. Ultimately, we expect this to be positive for margins in the medium to long term.

Valuation

Since the group operates in three different divisions with no synergies between them, we have prepared a different set of industry peers for each of CPH's divisions. We have employed three parameters – EV/EBITDA, P/S and P/E – to analyse the relative valuation of the group. Initially, we have calculated the peer average of CPH's individual divisions, and then taken a weighted average of these based on the sales contribution of the respective division. Given its diversified business model, this consolidated peer average is most comparable to CPH's valuation multiples. CPH currently trades at a P/S multiple of 0.5x (FY2016E), a significant 38% discount over the weighted average of division peers. On a 3-year historical P/S basis, CPH is trading at a premium of 6%. However, on a 2016E EV/EBITDA basis, CPH is trading at a premium of 21% to its product peers.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
CPH Chemie & Paper	15.2x	9.1x	6.1x	0.6x	0.5x	0.5x	31.8x	-54.4x	27.2x
Paper peers:									
Holmen	7.8x	8.6x	8.4x	1.0x	1.4x	1.3x	15.2x	14.7x	14.3x
Stora Enso	6.3x	6.7x	6.5x	0.4x	0.6x	0.6x	11.6x	10.6x	10.0x
Altri	7.9x	5.9x	6.1x	0.7x	1.2x	1.2x	10.4x	7.0x	7.4x
Metsa Board	5.8x	6.8x	6.1x	0.4x	1.0x	1.0x	15.2x	13.9x	11.1x
UPM-Kymmene	6.1x	5.9x	6.0x	0.5x	0.8x	0.8x	11.3x	11.8x	11.9x
Norsk Scogindustrier	NA	10.9x	11.1x	NA	0.0x	0.0x	88.6x	-0.6x	-0.6x
James Cropper	2.6x	NA	NA	0.3x	0.0x	0.0x	9.1x	15.7x	12.8x
OJI Holdings	NA	1115.8x	1097.6x	NA	0.3x	0.3x	11.6x	12.7x	10.9x
Chemistry peers:									
Honeywell Int.	8.4x	10.6x	9.9x	1.4x	2.1x	2.0x	14.2x	17.1x	15.6x
Clariant	6.6x	8.0x	7.5x	0.6x	0.9x	0.9x	11.1x	14.7x	13.0x
Arkema	5.4x	5.6x	5.2x	0.7x	0.6x	0.6x	9.8x	13.0x	11.0x
WR Grace & Co.	7.8x	13.5x	12.6x	1.7x	2.9x	2.8x	15.9x	22.2x	19.5x
Packaging peers:									
Meadwestwaco	6.0x	NA	NA	0.7x	NA	NA	13.7x	NA	NA
MacFarlane Group	5.8x	0.1x	0.1x	0.2x	0.0x	0.0x	7.7x	12.8x	11.7x
Gerresheimer	7.0x	9.5x	9.0x	1.0x	1.4x	1.3x	14.2x	16.3x	15.0x
West Pharmaceutical Services	9.9x	14.6x	12.7x	1.7x	3.2x	2.9x	20.1x	30.1x	25.1x
Convertidora Industrial	8.4x	7.1x	6.6x	0.4x	0.4x	0.3x	NA	NA	NA
PSB Industries	4.6x	5.2x	4.9x	0.4x	0.5x	0.4x	8.1x	8.8x	8.1x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	9.4x	9.0x	6.4x
Bicare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	6.2x	7.5x	7.1x	0.6x	0.8x	0.8x	11.6x	13.0x	11.7x
High	9.9x	1115.8x	1097.6x	1.7x	3.2x	2.9x	88.6x	30.1x	25.1x
Low	2.6x	0.1x	0.1x	0.2x	0.0x	0.0x	2.7x	-0.6x	-0.6x
Premium (disc) to peers	147%	21%	(14%)	6%	(38%)	(41%)	175%	(518%)	132%

Source: Bloomberg (as on 21 March 2016)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Weighted peer multiples	6.2x	7.3x	6.9x	0.6x	0.8x	0.8x	11.2x	12.9x	11.7x
CPH	15.2x	9.1x	6.1x	0.6x	0.5x	0.5x	31.8x	-54.4x	27.2x
Premium (disc) to peers	144%	25%	(12%)	11%	(33%)	(35%)	185%	(521%)	133%

Source: Bloomberg (as on 21 March 2016)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Chemistry sales	101	68	59	60	63	74	84
Paper sales	315	314	306	314	248	258	266
Packaging sales	106	106	116	118	110	110	115
Net Sales	521	489	481	492	420	441	465
Cost of Sales	(338)	(325)	(323)	(313)	(285)	(283)	(291)
Gross profit	182	163	158	180	135	158	175
Personnel cost	(93)	(85)	(86)	(88)	(86)	(89)	(86)
Outsourced maintenance/repairs	(20)	(19)	(19)	(18)	(16)	(14)	(15)
Other operating expense	(23)	(21)	(22)	(23)	(21)	(21)	(22)
Total operating costs	(136)	(125)	(127)	(129)	(123)	(124)	(123)
EBITDA	47	38	31	51	12	34	51
Depreciation on tangible fixed assets	(65)	(59)	(57)	(34)	(34)	(32)	(34)
Depreciation on intangible assets	(2)	(2)	(1)	(1)	(0)	(1)	(3)
Operating profit (EBIT) before impairment	(20)	(22)	(27)	16	(22)	1	14
Impairment	0	0	(251)	0	0	0	0
Operating profit (EBIT)	(20)	(22)	(278)	16	(22)	1	14
Finance costs	(13)	(7)	(5)	(7)	(13)	(5)	(5)
Finance income	1	1	1	2	1	1	0
Total financial income (expenses)	(12)	(6)	(4)	(6)	(12)	(5)	(5)
Profit before taxes (before exceptional items)	(32)	(28)	(281)	10	(34)	(4)	9
Non-operating items	12	38	2	1	2	0	0
Income taxes	2	(2)	8	(1)	(1)	(0)	(0)
Profit attributable to the parent	(18)	8	(271)	11	(33)	(4)	9
Basic EPS	(3.0)	1.3	(45.2)	1.8	(5.5)	(0.7)	1.4
Diluted EPS	(3.0)	1.3	(45.2)	1.8	(5.5)	(0.7)	1.4
DPS	0.7	0.7	0.7	0.7	0.6	0.0	0.6

Source: Company data, Research Dynamics

Balance Sheet

CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Assets							
Non-current assets							
PPE	769.2	719.7	433.7	419.1	404.3	416.3	403.8
Intangible assets	2.9	1.5	1.2	1.3	2.4	6.4	7.5
Long-term financial assets	0.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	2.5	0.0	0.0	2.8	0.0	0.0	0.0
Other non-current assets	23.9	21.2	22.4	22.7	20.2	20.2	20.2
Total Non Current Assets	798.5	752.4	467.3	456.0	436.9	452.9	441.5
Current assets							
Inventories	57.3	58.8	56.9	63.4	54.5	53.3	55.6
Trade accounts receivable	75.6	74.0	70.8	79.5	66.4	66.5	70.1
Other receivables	13.2	10.7	7.3	7.7	8.0	8.0	8.0
Prepaid expenses and accrued income	3.9	3.0	5.3	6.6	4.9	4.9	4.9
Short-term financial receivables	0.9	0.2	0.0	0.1	0.0	0.0	0.0
Liquid funds and Securities	42.6	73.3	74.2	75.1	53.2	38.8	53.7
Total assets	992.1	972.4	681.8	688.4	624.0	624.4	633.8
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Capital reserves	24.0	20.1	16.2	12.3	8.4	8.4	8.4
Profit reserves	670.3	651.6	659.5	389.2	397.4	364.3	360.1
Net result for the year	(18.0)	8.1	(271.5)	10.5	(33.1)	(4.2)	7.2
Non-current liabilities							
Long-term financial liabilities	169.3	144.0	117.9	128.0	126.5	128.0	114.0
Pension scheme liabilities	0.6	0.5	0.7	0.6	1.0	1.0	1.0
Other long-term liabilities	0.0	0.0	2.5	2.4	2.3	2.3	2.3
Long-term provisions	32.0	31.3	21.3	20.8	20.0	20.0	20.0
Current liabilities							
Trade accounts payable	40.0	52.9	59.4	53.8	46.7	50.2	52.3
Other payables	6.9	2.6	4.4	3.9	2.6	2.6	2.6
Accrued liabilities and deferred income	12.7	15.8	11.0	9.1	13.6	13.6	13.6
Short-term financial liabilities	11.3	9.8	23.0	22.6	6.8	6.6	20.6
Short-term provisions	12.9	5.7	7.2	5.1	1.5	1.5	1.5
Total liabilities	285.8	262.6	247.5	246.4	221.2	225.9	228.1
Total equity and liab.	992.1	972.4	681.8	688.4	624.0	624.4	633.8

Source: Company data, Research Dynamics

Cash Flow Statement

CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net profit for the period	(18.0)	8.1	(271.5)	10.5	(33.1)	(4.2)	7.0
Non-cash adjustments:	47.9	20.8	298.8	30.3	35.3	33.1	35.6
Change in current assets and liabilities:							
(Increase)/ decrease in inventories	(2.7)	(1.7)	(2.6)	(5.5)	8.4	1.2	(2.3)
Decrease in trade accounts receivable	(20.2)	1.3	3.4	(11.2)	8.1	(0.1)	(3.6)
Increase/ (decrease) in trade accounts payable	(52.0)	13.0	6.4	(5.8)	(6.8)	3.5	2.2
Other changes in working capital	27.5	0.8	(3.0)	1.5	6.5	-	-
Cash flows from operating activities	(17.5)	42.3	31.4	19.8	23.3	33.6	38.9
Investments in tangible fixed assets	(24.4)	(10.9)	(18.2)	(19.2)	(21.9)	(44.3)	(20.8)
Disposals of tangible fixed assets	39.9	30.1	0.9	0.4	1.6	-	-
Investments in intangible assets	(1.4)	(0.3)	(0.5)	(0.6)	(1.6)	(4.8)	(3.2)
Sale of subsidiary/ Divestiture of interests	33.1	-	-	-	-	-	-
Repayment of long-term financial receivables	0.1	2.5	0.0	-	-	-	-
Cash flow generated (used) in investment activities	47.4	21.4	(17.8)	(19.4)	(22.0)	(49.1)	(24.0)
Increase/ (Decrease) in short-term financial liabilities and receivables	3.7	(1.5)	(2.0)	(0.4)	(15.3)	(0.3)	14.0
Increase/ (Decrease) in long-term financial liabilities	(56.2)	(25.1)	(10.8)	9.8	(1.1)	1.5	(14.0)
Increase in other long-term liabilities	(0.0)	0.0	2.5	(0.2)	(0.1)	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	-	(3.9)	(3.9)	(3.9)	(3.9)	-	-
Cash flow generated (used) in financing	(52.6)	(30.6)	(14.2)	5.3	(20.4)	1.2	(0.0)
Exchange (losses)/gains	(0.1)	0.1	(0.2)	0.2	2.3	-	-
Net change in cash	(22.8)	33.2	(0.7)	6.0	(16.7)	(14.4)	14.7
Opening cash balance	54.3	31.5	64.7	63.9	69.9	53.1	38.8
Closing cash balance	31.5	64.7	63.9	69.9	53.1	38.8	53.7

Source: Company data, Research Dynamics

Key Ratios

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Growth Ratios							
Sales Growth	25%	(6%)	(2%)	2%	(15%)	5%	5%
Chemistry division	3%	(33%)	(13%)	2%	4%	18%	14%
Paper division	44%	(0%)	(3%)	3%	(21%)	4%	3%
Packaging division	4%	1%	9%	1%	(7%)	0%	5%
Operating Profit Growth	NM	NM	NM	NM	NM	NM	1357%
Net Income Growth	NM	NM	NM	NM	NM	NM	NM
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(4%)	(5%)	(6%)	3%	(5%)	0%	3%
Chemistry division	1%	(0%)	(9%)	(4%)	(3%)	4%	5%
Paper division	(8%)	(8%)	(10%)	4%	(11%)	(3%)	1%
Packaging division	4%	5%	6%	4%	5%	6%	7%
EBITDA Margin %	9%	8%	6%	10%	3%	8%	10%
Net Margin (%)	(3%)	2%	(56%)	2%	(8%)	(1%)	2%
Return Ratios							
Profit Margin	(3%)	2%	(56%)	2%	(8%)	(1%)	2%
Asset Turnover	0.5x	0.5x	0.6x	0.7x	0.6x	0.7x	0.7x
Financial Leverage	1.5x	1.4x	1.4x	1.6x	1.6x	1.6x	1.6x
Dupont ROE (%)	(3%)	1%	(47%)	2%	(8%)	(1%)	2%
ROCE (%)	(2%)	(3%)	(5%)	3%	(4%)	0%	2%
ROA (%)	(2%)	1%	(33%)	2%	(5%)	(1%)	1%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.2x	0.3x	0.3x	0.3x	0.3x	0.3x
Net Debt - Equity Ratio	0.2x	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x
Interest Coverage	(2.0x)	(3.2x)	(6.0x)	5.2x	(5.5x)	0.1x	2.1x
Liquidity Ratios							
Current Ratio	2.3x	2.5x	2.0x	2.5x	2.6x	2.3x	2.1x
Quick Ratio	1.6x	1.9x	1.5x	1.8x	1.9x	1.6x	1.5x
Valuation Ratios							
EV/EBITDA	9.4x	12.3x	13.7x	6.2x	25.8x	9.3x	8.8x
P/E	NM	48.4x	NM	22.9x	NM	NM	52.6x

Source: Company data, Research Dynamics

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