# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## Company update

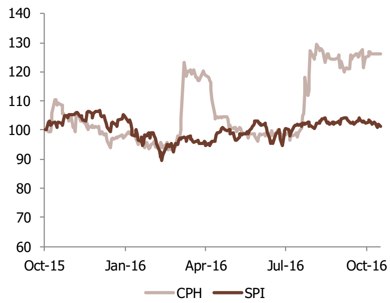
18 October 2016

### Company Data

| | |
|---|---|
| Price: | CHF 40.00 |
| Market Cap: | CHF 240.0mn |
| Free Float: | 41.7% |
| No. of shares: | 6.0mn |
| Avg. traded volume (1 year): | 919 |
| 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 | 458 | 493 |
| EBITDA % | 10.3 | 2.9 | 10.1 | 11.0 |
| EBIT % | 3.3 | -5.2 | 2.6 | 3.7 |
| Net Margin % | 2.1 | -7.9 | 0.3 | 2.3 |
| Basic EPS | 1.8 | -5.5 | 0.2 | 1.9 |
| Diluted EPS | 1.8 | -5.5 | 0.2 | 1.9 |
| DPS | 0.65 | 0.0 | - | 0.8 |
| Equity Ratio % | 64.2 | 64.5 | 62.0 | 62.3 |
| Capex | 19.4 | 22.0 | 51.2 | 24.1 |
| | | | | |
| P/E | 22.9x | NM | 156.1x | 18.5x |
| EV/EBITDA | 6.2x | 25.8x | 6.2x | 5.3x |

### Next Events

| | |
|---|---|
| Annual Results Conference & Investor Meeting | 24 February 2017 |
| Annual General Meeting | 21 March 2017 |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## Site for new European manufacturing unit acquired

CPH Chemie + Paper 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 1H2016, CPH's net sales stood at CHF 219.5mn, up 10% y/y, and – following the completion of the acquisition of China-based ALSIO – had an employee headcount of 1,001.

- **Land acquisition to diversify manufacturing base**

  CPH Chemie + Paper Holding AG announced today that it has purchased a 5,400 meter square industrial site in Bosnia and Herzegovina. The company's chemicals' subsidiary, Zeochem, intends to build a plant to manufacture molecular sieve powders (Purmol), specialty zeolites (ZEOflair) and silica chromatography gels (ZEOprep) at the newly acquired land in Zvronik. The new plant is expected to be completed by end of 2017 with "high-single-digit million-franc" investment and to employ 40 personnel. The acquisition of an industrial land in Europe will extend the production sites of the Chemistry division from two (one in Louisville/USA and one in Lianyungang/China) to three, thus re-balancing the global presence of the Group once the relocation of the Uetikon site will be concluded. The new site is also in proximity to Alumina d.o.o., a long term partner of Zeochem for its downstream materials supply, which would lower transportation costs for the company.

- **Sale of Uetikon facility**

  Uetikon was the place the company's Chemistry division was founded in 1818. The sale of the site was finalized earlier this year after lengthy negotiations, with the Canton of Zurich agreeing to purchase the 65,000 square metres of industrial land from the CPH group. The total sales price of CHF 52 mn includes CHF 32 mn for environmental clean-up of the site, which will be held back by the Canton. The two-year lease back period between the two parties gives CPH time to continue with its current activities (R&D, production and administration) on the site till the relocation is completed. The rationale behind the sale was primarily to make the Chemistry division more competitive on a global basis by reducing the Swiss cost base.

- **In line with the Chemistry segment's strategy**

  Transferring its production over a two-year period from Switzerland to a) China – by way of acquiring 80% of molecular sieve manufacturer ALSIO – and b) building a European plant in Bosnia and Herzegovina is thus a consequent step in the division's strategy. By increasing production capacities in lower cost regions, the division intends to reduce the cost of production and help improve margins in the current tough economic environment. In addition, it will also reduce the company's exposure to the Swiss Franc as well as increase the share of revenues from outside of Europe, which is the Group's strategic objective. While with this investment CAPEX is expected to increase this year and next, we are leaving our estimates unchanged at this stage, as the division's outlook for this year and next remains unchanged (expected increase in sales and improved margins).

- **Valuation and conclusion**

  The CPH stock has outperformed the Swiss market over the last few months. Given its low profitability during the current transformation/restructuring phase, we look at the company's sales and EBITDA multiples. CPH currently trades at a 45% discount to the 2016 peer average P/S, and a 47% discount to the 2017 P/S. Looking at the EV/EBITDA multiple, the company trades at a 8% discount to its peers on 2016 estimates and 25% discount to peers on 2017 forecast.

  With operating profit expected to grow at a CAGR of more than 30% between 2016E and 2019E, we think the stock could command a higher multiple.

**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 | 13.7x | 6.8x | 5.8x | 0.5x | 0.5x | 0.5x | 26.8x | 175.3x | 20.7x |
| **Paper peers:** | | | | | | | | | |
| Holmen | 11.4x | 10.4x | 10.0x | 1.3x | 1.6x | 1.7x | 27.6x | 16.7x | 16.2x |
| Stora Enso | 8.0x | 6.9x | 6.9x | 0.6x | 0.7x | 0.7x | 36.0x | 12.2x | 10.8x |
| Altri | 8.4x | 7.0x | 7.8x | 1.0x | 1.1x | 1.1x | 10.8x | 8.9x | 10.8x |
| Metsa Board | 9.3x | 9.1x | 7.1x | 0.8x | 1.1x | 1.0x | 19.3x | 17.9x | 11.9x |
| UPM-Kymmene | 6.4x | 6.6x | 6.7x | 0.7x | 1.0x | 1.0x | 14.8x | 12.7x | 13.1x |
| Norkse Scogindustrier | NA | 6.1x | 8.6x | NA | 0.1x | 0.1x | NA | -3.1x | -1.1x |
| James Cropper | 9.9x | NA | NA | 0.6x | 0.0x | 0.0x | 24.9x | 25.3x | 20.9x |
| OJI Holdings | NA | NA | NA | NA | 0.3x | 0.3x | NA | 35.1x | 9.9x |
| **Chemistry peers:** | | | | | | | | | |
| Honeywell Int. | 11.8x | 11.0x | 10.3x | 2.0x | 2.1x | 2.0x | 17.3x | 16.5x | 15.3x |
| Clariant | 10.4x | 8.1x | 7.8x | 0.9x | 0.9x | 0.9x | 24.5x | 14.7x | 13.2x |
| Arkema | 7.0x | 6.7x | 6.2x | 0.7x | 0.8x | 0.8x | 21.7x | 15.9x | 13.9x |
| WR Grace & Co. | 15.3x | 12.5x | 11.4x | 1.8x | 3.0x | 2.9x | 16.4x | 22.5x | 19.8x |
| **Packaging peers:** | | | | | | | | | |
| Westrock | 10.9x | NA | NA | 1.3x | NA | NA | 35.1x | NA | NA |
| MacFarlane Group | 7.9x | 0.1x | 0.1x | 0.3x | 0.0x | 0.0x | 12.0x | 10.1x | 9.1x |
| Gerresheimer | 9.4x | 10.0x | 9.5x | 1.4x | 1.5x | 1.5x | 23.9x | 16.9x | 15.8x |
| West Pharmaceutical Services | 17.1x | 16.5x | 14.3x | 2.8x | 3.5x | 3.3x | 35.6x | 32.8x | 27.8x |
| Convertidora Industrial | 9.2x | 7.4x | 7.3x | 0.4x | 0.4x | 0.3x | 25.9x | NA | NA |
| PSB Industries | 6.0x | 6.1x | 5.6x | 0.6x | 0.4x | 0.4x | 10.4x | 9.7x | 8.5x |
| Astrapak Ltd | 9.9x | NA | NA | 0.4x | NA | NA | 73.1x | 8.1x | 5.8x |
| Bilcare Ltd | 7.5x | NA | NA | 0.0x | NA | NA | 1.7x | NA | NA |
| Median | 9.4x | 7.4x | 7.8x | 0.8x | 0.9x | 0.9x | 22.8x | 15.9x | 13.1x |
| High | 17.1x | 16.5x | 14.3x | 2.8x | 3.5x | 3.3x | 73.1x | 35.1x | 27.8x |
| Low | 6.0x | 0.1x | 0.1x | 0.0x | 0.0x | 0.0x | 1.7x | -3.1x | -1.1x |
| Premium (disc) to peers | 46% | (8%) | (25%) | (37%) | (45%) | (47%) | 17% | 1004% | 59% |

Source: Bloomberg (as on 16 October 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 | 9.3x | 7.4x | 7.6x | 0.8x | 0.8x | 0.8x | 22.4x | 13.7x | 11.3x |
| CPH | 13.7x | 6.8x | 5.8x | 0.5x | 0.5x | 0.5x | 26.8x | 175.3x | 20.7x |
| Premium (disc) to peers | 47% | (9%) | (24%) | (39%) | (37%) | (40%) | 19% | 1178% | 84% |

Source: Bloomberg (as on 16 October 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 | 75 | 88 |
| Paper sales | 315 | 314 | 306 | 314 | 248 | 261 | 271 |
| Packaging sales | 106 | 106 | 116 | 118 | 110 | 122 | 134 |
| **Net Sales** | **521** | **489** | **481** | **492** | **420** | **458** | **493** |
| Cost of Sales | (338) | (325) | (323) | (313) | (285) | (289) | (307) |
| **Gross profit** | **182** | **163** | **158** | **180** | 135 | 169 | 186 |
| Personnel cost | (93) | (85) | (86) | (88) | (86) | (89) | (94) |
| Outsourced maintenance/repairs | (20) | (19) | (19) | (18) | (16) | (14) | (15) |
| Other operating expense | (23) | (21) | (22) | (23) | (21) | (20) | (23) |
| **Total operating costs** | **(136)** | **(125)** | **(127)** | **(129)** | (123) | (123) | (132) |
| **EBITDA** | **47** | **38** | **31** | **51** | **12** | **46** | **54** |
| Depreciation on tangible fixed assets | (65) | (59) | (57) | (34) | (34) | (33) | (33) |
| Depreciation on intangible assets | (2) | (2) | (1) | (1) | (0) | (1) | (2) |
| **Operating profit (EBIT) before impairment** | **(20)** | **(22)** | **(27)** | **16** | **(22)** | **12** | **18** |
| Impairment | 0 | 0 | (251) | 0 | 0 | 0 | 0 |
| **Operating profit (EBIT)** | **(20)** | **(22)** | **(278)** | **16** | **(22)** | **12** | **18** |
| Finance costs | (13) | (7) | (5) | (7) | (13) | (6) | (6) |
| Finance income | 1 | 1 | 1 | 2 | 1 | 1 | 1 |
| **Total financial income (expenses)** | **(12)** | **(6)** | **(4)** | **(6)** | **(12)** | **(5)** | **(6)** |
| **Profit before taxes (before exceptional items)** | **(32)** | **(28)** | **(281)** | **10** | **(34)** | **7** | **13** |
| Non-operating items | 12 | 38 | 2 | 1 | 2 | (3) | 0 |
| Income taxes | 2 | (2) | 8 | (1) | (1) | (2) | (1) |
| **Profit attributable to the parent** | **(18)** | **8** | **(271)** | **11** | **(33)** | **1** | **12** |
| **Basic EPS** | (3.0) | 1.3 | (45.2) | 1.8 | (5.5) | 0.2 | 1.9 |
| **Diluted EPS** | (3.0) | 1.3 | (45.2) | 1.8 | (5.5) | 0.2 | 1.9 |
| **DPS** | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.0 | 0.8 |

Source: Research Dynamics, Company data

## 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 | 417.6 | 405.0 |
| 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 | 454.2 | 442.8 |
| **Current assets** | | | | | | | |
| Inventories | 57.3 | 58.8 | 56.9 | 63.4 | 54.5 | 54.6 | 58.4 |
| Trade accounts receivable | 75.6 | 74.0 | 70.8 | 79.5 | 66.4 | 69.0 | 74.3 |
| 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 | 55.8 | 73.3 |
| **Total assets** | **992.1** | **972.4** | **681.8** | **688.4** | **624.0** | **646.5** | **661.6** |
| **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 | 4.8 | 4.8 |
| Profit reserves | 670.3 | 651.6 | 659.5 | 389.2 | 397.4 | 364.3 | 365.7 |
| Net result for the year | (18.0) | 8.1 | (271.5) | 10.5 | (33.1) | 1.4 | 11.6 |
| **Non-current liabilities** | | | | | | | |
| Long-term financial liabilities | 169.3 | 144.0 | 117.9 | 128.0 | 126.5 | 146.6 | 130.0 |
| 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 | 51.4 | 54.9 |
| 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 | 6.9 | 23.5 |
| 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** | **246.0** | **249.5** |
| **Total equity and liab.** | **992.1** | **972.4** | **681.8** | **688.4** | **624.0** | **646.5** | **661.6** |

Source: Research Dynamics, Company data

## Cash Flow Statement

| CHF mn | FY11 | FY12 | FY13 | FY14 | FY15E | FY16E | FY17E |
|---|---|---|---|---|---|---|---|
| Net profit for the period | (18.0) | 8.1 | (271.5) | 10.5 | (33.1) | 1.4 | 11.6 |
| Non-cash adjustments: | 47.9 | 20.8 | 298.8 | 30.3 | 35.3 | 33.9 | 35.5 |
| **Change in current assets and liabilities:** | | | | | | | |
| (Increase)/ decrease in inventories | (2.7) | (1.7) | (2.6) | (5.5) | 8.4 | (0.1) | (3.7) |
| Decrease in trade accounts receivable | (20.2) | 1.3 | 3.4 | (11.2) | 8.1 | (2.6) | (5.2) |
| Increase/ (decrease) in trade accounts payable | (52.0) | 13.0 | 6.4 | (5.8) | (6.8) | 4.7 | 3.5 |
| 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** | **37.3** | **41.6** |
| Investments in tangible fixed assets | (24.4) | (10.9) | (18.2) | (19.2) | (21.9) | (46.4) | (20.9) |
| 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 act.** | **47.4** | **21.4** | **(17.8)** | **(19.4)** | **(22.0)** | **(51.2)** | **(24.1)** |
| Increase/ (Decrease) in short-term financial liabilities and receivables | 3.7 | (1.5) | (2.0) | (0.4) | (15.3) | 0.1 | 16.6 |
| Increase/ (Decrease) in long-term financial liabilities | (56.2) | (25.1) | (10.8) | 9.8 | (1.1) | 20.0 | (16.6) |
| 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) | (3.6) | - |
| **Cash flow generated (used) in financing act.** | **(52.6)** | **(30.6)** | **(14.2)** | **5.3** | **(20.4)** | **16.5** | **(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)** | **2.6** | **17.5** |
| Opening cash balance | 28.4 | 5.6 | 38.8 | 38.1 | 69.9 | 53.1 | 55.7 |
| **Closing cash balance** | **5.6** | **38.8** | **38.1** | **44.0** | **53.1** | **55.7** | **73.3** |

Source: Research Dynamics, Company data

## Key Ratios

| | FY11 | FY12 | FY13 | FY14 | FY15 | FY16E | FY17E |
|---|---|---|---|---|---|---|---|
| **Growth Ratios** | | | | | | | |
| Sales Growth | 25% | (6%) | (2%) | 2% | (15%) | 9% | 8% |
| Chemistry division | 3% | (33%) | (13%) | 2% | 4% | 20% | 17% |
| Paper division | 44% | (0%) | (3%) | 3% | (21%) | 5% | 4% |
| Packaging division | 4% | 1% | 9% | 1% | (7%) | 11% | 10% |
| Operating Profit Growth | NM | NM | NM | NM | NM | NM | 52% |
| Net Income Growth | NM | NM | NM | NM | NM | NM | 744% |
| **Profitability Ratios (%)** | | | | | | | |
| Operating margin (before impairment) (% ) | (4%) | (5%) | (6%) | 3% | (5%) | 3% | 4% |
| Chemistry division | 1% | (0%) | (9%) | (4%) | (3%) | 2% | 5% |
| Paper division | (8%) | (8%) | (10%) | 4% | (11%) | (0%) | 1% |
| Packaging division | 4% | 5% | 6% | 4% | 5% | 10% | 7% |
| EBITDA Margin % | 9% | 8% | 6% | 10% | 3% | 10% | 11% |
| Net Margin (%) | (3%) | 2% | (56%) | 2% | (8%) | 0% | 2% |
| **Return Ratios** | | | | | | | |
| Profit Margin | (3%) | 2% | (56%) | 2% | (8%) | 0% | 2% |
| Asset Turnover | 0.5x | 0.5x | 0.6x | 0.7x | 0.6x | 0.7x | 0.8x |
| Financial Leverage | 1.5x | 1.4x | 1.4x | 1.6x | 1.6x | 1.6x | 1.6x |
| Dupont ROE (%) | (3%) | 1% | (47%) | 2% | (8%) | 0% | 3% |
| ROCE (%) | (2%) | (3%) | (5%) | 3% | (4%) | 2% | 3% |
| ROA (%) | (2%) | 1% | (33%) | 2% | (5%) | 0% | 2% |
| **Leverage Ratios** | | | | | | | |
| Debt - Equity Ratio | 0.3x | 0.2x | 0.3x | 0.3x | 0.3x | 0.4x | 0.4x |
| 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) | 1.9x | 2.8x |
| **Liquidity Ratios** | | | | | | | |
| Current Ratio | 2.3x | 2.5x | 2.0x | 2.5x | 2.6x | 2.5x | 2.3x |
| Quick Ratio | 1.6x | 1.9x | 1.5x | 1.8x | 1.9x | 1.8x | 1.7x |
| **Valuation Ratios** | | | | | | | |
| EV/EBITDA | 9.4x | 12.3x | 13.7x | 6.2x | 25.8x | 6.2x | 5.3x |
| P/E | NM | 48.4x | NM | 22.9x | NM | 156.1x | 18.5x |
| P/BV | 0.4x | 0.5x | 0.8x | 0.5x | 0.6x | 0.5x | 0.5x |

Source: Research Dynamics, Bloomberg, Company data

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