

# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## FY2016 earnings update

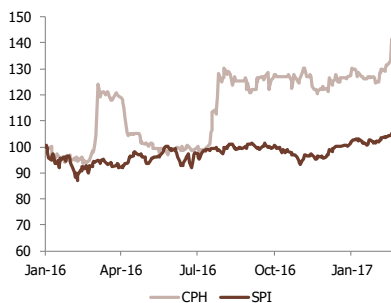
28 February 2017

### Company Data

Price:	CHF 43.50
Market Cap:	CHF 261mn
Free Float:	41.1%
No. of shares:	6.0mn
Avg. traded volume (1 year):	293
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

### Share Price Development



Source: Bloomberg

### Key Financial Data

	2015	2016	2017E	2018E
Sales	420.0	434.8	446.5	462.9
EBITDA %	2.9%	8.5%	9.4%	10.3%
EBIT %	(5.2%)	1.4%	2.3%	3.4%
Net Margin %	(7.9%)	(1.8%)	0.9%	1.9%
Basic EPS	(5.52)	(1.32)	0.67	1.47
Diluted EPS	(5.52)	(1.32)	0.67	1.47
DPS	0.60	0.65	0.65	0.65
Equity Ratio %	64.54%	56.23%	57.03%	57.53%
Capex	(22.0)	(1.5)	(38.1)	(21.5)
P/E	NM	NM	65.15x	29.58x
EV/EBITDA	25.8x	9.1x	8.0x	7.0x

### Next Events

AGM	21 March 2017
H117 results	30 June 2017

### Analysts

Doris Rudischhauser  
dru@researchdynamics.ch

Alexandre Müller  
amu@researchdynamics.ch

Tel: +41 43 268 3232

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

## On the road to profitable growth

CPH Chemie + Papier 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 57% of total revenues generated in 2016, followed by Packaging with 27% and Chemistry with 16% revenue contribution. Europe is CPH's largest market for its products followed by the Americas. In 2016, CPH's net sales stood at CHF 434.8mn with an employee headcount of 985.

### 2016: moderate revenue growth with positive EBIT

CPH Group's revenues for the full year increased by 3.5% y/y to CHF 434.8mn in 2016 on account of solid performance in the Packaging and Chemistry segments. The company's sales numbers came in below our expectations due to a muted 2H2016. At the operating level, the company posted a profit of CHF 5.9mn for 2016, compared to a loss of CHF 21.8mn in 2015. The net loss of CHF 7.7mn in 2016 compared to a net loss of CHF 33.1mn in 2015, where in 2016 there was a onetime extraordinary expense of CHF 4.4mn on account of the restructuring of the Uetikon operation. The tax expense of CHF 4.3mn in 2016 was significantly higher compared to CHF 1.0mn in 2015. The Packaging segment reported an 8.7% y/y growth in revenues to CHF 119.3mn, while the operating profit stood at CHF 9.0mn, up 53.7% y/y due to increase in volumes and strong sales in the Asian markets. Revenues from the Chemistry segment rose by 10.9% y/y to CHF 69.3mn, mostly attributable to the acquisition of the ALSIO operations, and the division returned to positive EBIT of CHF 1.6mn compared to a loss of CHF 1.8mn in 2015. Paper remains the largest segment for CPH with 56.6% contribution to total revenues in 2016. The market is in significant oversupply and we believe there is a high probability of capacity reduction both in magazine as well in the newsprint segments. Although volumes were down close to 5% in 2016, CPH managed to maintain its sales with price mix and currency improvement, at CHF 246.2mn more or less stable (-0.6%). The division reported negative EBIT of CHF 5.8mn.

### Efforts should start yielding results

In 2016, the company has taken a number of strategic decisions which we feel sets the stage for it to evolve into a more internationalized and diversified Industrial Goods company. CPH has begun manufacturing operations in its China-based Chemicals' (ALSIO) and Packaging plants. This is not only going to help the company in reducing its operating costs but also to increasingly realign the cost base with that of revenues. It also helps the company to better cater to the fast growing Asian markets. Further, the Chemistry division is building a production facility in Zvornik in Bosnia and Herzegovina and will relocate a further part of the Uetikon site's production and management to Rüti within the Canton Zurich. These developments are expected to lower the company's overall production costs and result in improved margins. It would also lower the impact of currency fluctuations as it reduces the exposure to the CHF.

### An encouraging year ahead

While we expect the Paper division to remain at the current sales level, we look for mid to high single-digit growth with better margins compared to 2016 in both the Packaging and Chemistry segments. The company plans to invest CHF 36mn in 2017 which will help in further efficiency gains in the different divisions, particularly in Chemistry, in the future. We expect the company to return to profitability at the net level in 2017 given the market dynamics remains largely stable. On the EBIT level, we look for contributions of CHF 8.2mn from Packaging (lower than in 2016 considering some start-up costs for the Suzhou plant in China), CHF 2.8mn from Chemistry and CHF 0.2mn from the Paper segment.

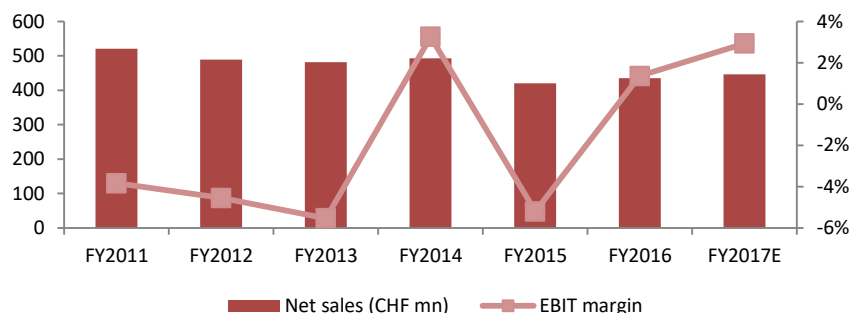
### Valuation: market is yet to price in the operational improvements

CPH has outperformed the SPI Index by c.35.0% since the beginning of 2016. On an absolute basis, CPH shares are up 38.5% since 2016. In our view, the stock has reacted positively successful acquisition of ALSIO and sale of the Uetikon site. At current price levels, CPH shares trade at a discount of 42% to its peers on P/S basis. Similarly, CPH is trading at a discount of 7% to its peer average EV/EBITDA. We expect the company to improve its earnings in the near to medium-term. Also, with newsprint prices possibly inching up and the Chemistry and Packaging segments posting profitable revenue growth, CPH should be able to reverse its losses in the near term. CPH trades at 23.0x 2018 P/E close to its peer average of 23.3x.

### FY2016 – opex improvement drives positive EBIT

For FY2016, the group’s revenues increased by 3.5% y/y to CHF 434.8mn (FY2015: CHF 420.0mn). CPH reported a healthy set of sales numbers lead by chemistry with revenue of CHF 69.3mn increasing by 10.9% y/y from CHF 62.5mn in 2015 (mostly thanks to the acquisition of ALSIO), which is followed by an 8.7% y/y growth in packaging sales to 119.3mn in 2016 from CHF 109.7mn in 2015. Paper segment reported a slight drop in revenue of (0.6) % y/y to CHF 246.2 in 2016 from CHF 247.8 in 2015.

#### Exhibit 1: CPH Net sales vs EBIT margin

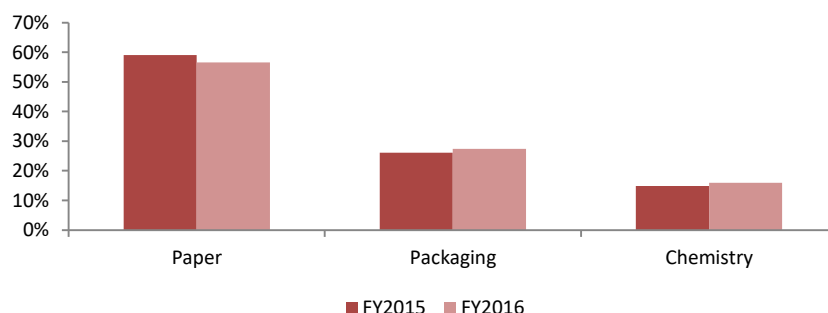


Source: Company data, Research Dynamics

The company was able to decrease its energy and personal cost as a percentage of sales to 12% and 20% in 2016 from 15% and 21% in 2015. Also, the cost of materials remained stable as a percentage of sales at 53% for the year although the input prices have not eased. The group’s gross profit increased significantly to CHF 168.2mn in FY2016 from CHF 135.2mn in FY2015, an increase of almost 24.4% y/y. On the other hand, EBITDA improved more than 3x to CHF 36.9mn in 2016 from CHF 12.2mn in previous year, giving an EBITDA margin of 8.5%. The group reported an EBIT of CHF 5.9mn from a negative EBIT of CHF 21.8mn in 2015. CPH Group reported a net loss of CHF 7.7mn in FY2016, a significant improvement over a loss of CHF 33.1mn in FY2015. The net profit number in 2016 was thereby negatively impacted by CHF 4.4mn arising out of the sale of the Chemistry Division’s Uetikon operation.

By further growing its Chemistry and Packaging divisions, CPH also reduced dependency on Europe. In 2016, major developments were CPH’s successful expansion in Asia and repositioning of the Chemistry division. Apart from the Paper segment, which was flat, the other two segments reported encouraging numbers. The share of Paper division was at 56.6% (CHF 246.2mn) to group net sales in FY2016 which has come down over the past few years as management forced growth initiatives in the Chemistry and Packaging businesses. Both packaging and chemistry revenues witnessed an increase in the contribution to total revenue from 26.1% to 27.4% and from 14.9% to 15.9%, respectively.

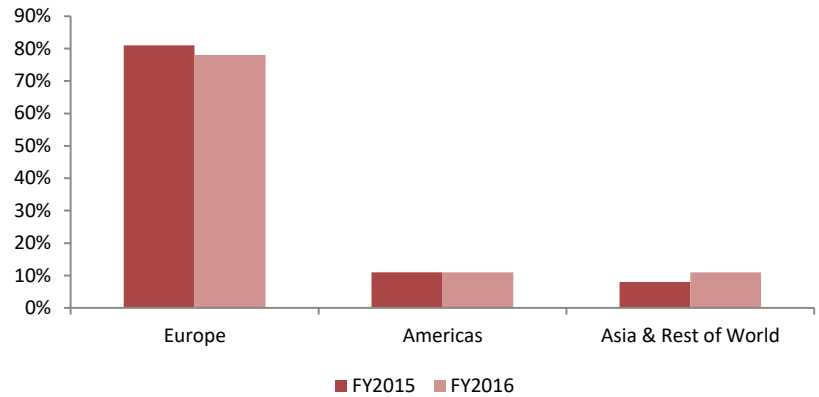
#### Exhibit 2: CPH Net sales by division



Source: Company data, Research Dynamics

In terms of geographies, Europe’s contribution came down to 78% from 81% in 2015. On a regional basis, CPH recorded a reduction in net sales from Switzerland and rest of Europe from 13% in 2015 to 12% in 2016 and 68% in 2015 to 66% in 2016, respectively. However, the Group reported encouraging growth in contributions from Asia, gaining 3% in terms of last year’s share which is an encouraging sign and in line with the Group strategy.

**Exhibit 3: CPH net sales by region**



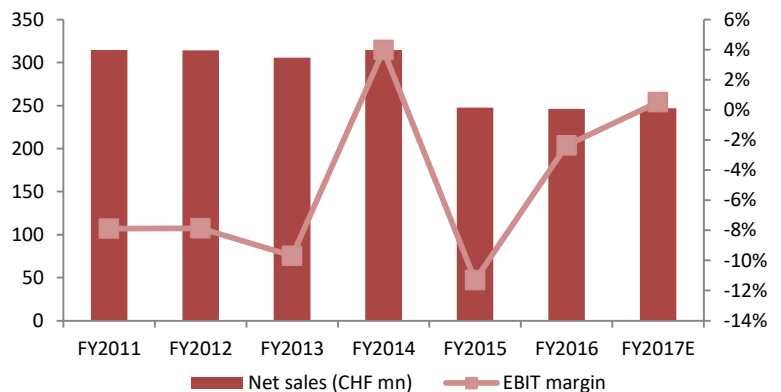
Source: Company data, Research Dynamics

**Segmental performance**

- Paper: Stable sales in tough market environment**

The paper market is highly commoditized with little scope for differentiation. Thus, the focus of the company CPH is to achieve cost leadership in the markets it operates. In 2016, amidst a slowdown in demand, revenues from the paper segment fell 0.6% y/y to CHF 246.2mn. The decrease was due to structural decline in the demand and overcapacities with paper manufacturers. European newsprint was able to hold up better pricing and – in terms of volumes – improved to an output of 356k tonnes from 350k in 2015, while magazine paper volumes dropped in Europe by 8.5% y/y to 157k tonnes. Market share in newsprint paper was flat at 5.3% in 2016; against this market share in the higher margin magazine paper declined to 6.1% (from 6.7%). Rest of Europe exports accounted for 79% of total sales in 2016 down from 81% in 2015, while the contribution of domestic sales were flat at 17%. EBITDA for the segment stood at CHF 15.5mn in 2016, from CHF -3.8mn, while EBIT improved to CHF -5.8mn from CHF -28.0mn in 2015. The loss resulted despite the company taking several steps to reduce its fixed as well as variable costs.

**Exhibit 4: Paper sales and EBIT margin**



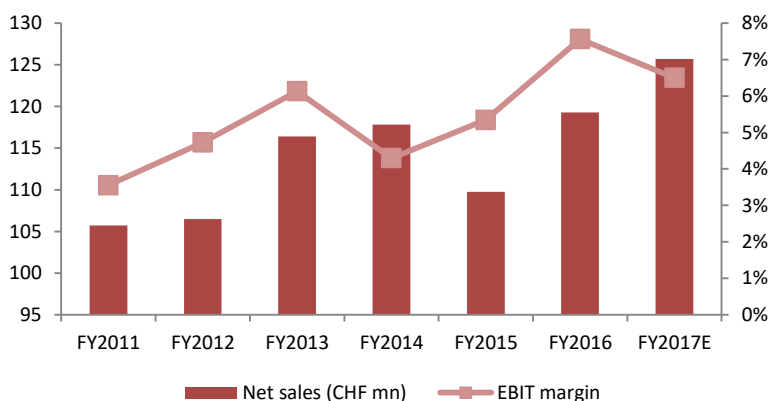
Source: Company data, Research Dynamics

- Packaging: Asia expansion driving sales and margin growth**

Revenues from the Packaging business stood at CHF119.3mn, up 8.7% y/y. The company was able to increase its sales volumes by 6.9% y/y in 2016, resulting in a higher market share of ~25% in a sluggish European market. Domestic sales were only 6% of the revenues. Rest of Europe accounted for 61% of the segment’s sales flat on a y/y basis. The Americas contributed 15% of total sales, and contribution of the Asia region increased to 17% of total packaging sales. We expect the contribution from Asia to increase as the end pharmaceutical markets in emerging economies such as China, India and Indonesia are expected to post strong growth for the next few years. The focused approach on higher-value products resulted in better margins and earnings in 2016, EBITDA increasing by 34.6% to CHF 14.4mn.

Higher revenues, translated into higher segment EBIT of CHF 9.0mn (+ 53.7% y/y for the year). Encouragingly, the division's EBIT margin improved from 5.3% in 2015 to 7.6% in 2016.

**Exhibit 5: Packaging net sales and EBIT margin**

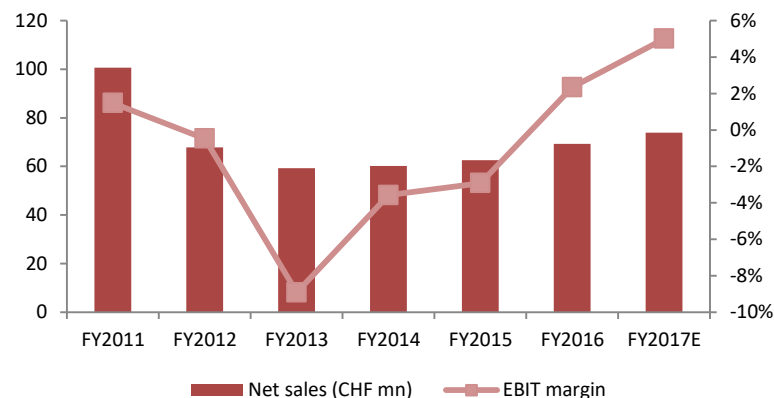


Source: Company data, Research Dynamics

• **Chemistry: Reaping benefits of synergies**

The Chemistry division reported the highest growth among all the segments in the fiscal year 2016. The segment's sales increased by 10.9%/y/y to CHF 69.3 in 2016. The higher sales are mainly attributable to the first time consolidation of the new ALSIO subsidiary coupled with the higher utilization of the Swiss and US production facilities for higher-value product segments. Synergies from the acquisition of Jiangsu ALSIO Technology as per March 1, 2016 allowed CPH to reduce production cost and, together with increased sales of high-value products and higher sales volume, resulted in an EBITDA of CHF 5.6mn up 271.4% from 2015 levels. The segment reported an EBIT of CHF 1.6mn, positive for the first time since 2011, and the margin improved to 2.3% from -2.9% in 2015.

**Exhibit 6: Chemistry net sales and EBIT margin**



Source: Company data, Research Dynamics

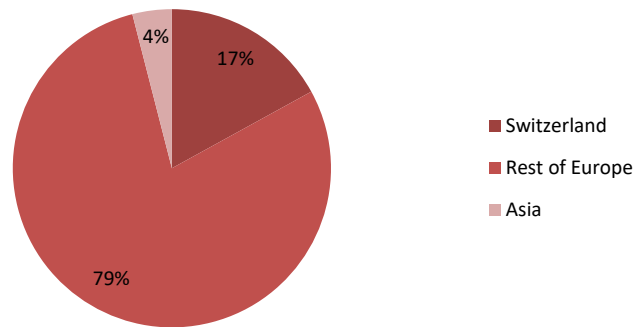
**Business strategy update**

CPH continues to focus on and force its strategy: to diversify its geographical revenue base, reduce currency volatility, lower dependence on the paper segment and invest into the faster growing Packaging and Chemistry segments. The company is progressing well on this strategy and is on track to meet its objectives in the mid to longer term. The contribution of the paper segment to total revenues has been reduced to 57% in FY2016, from 64% in FY 2014. The European region also accounted for lesser percentage of overall sales in FY2016, in line with management's goals. Moreover, the company incurred only 40% of its costs in Swiss Francs, down from 50% last year, on track to achieve the target of 33%. The company will continue to diversify its geographical base, while better balancing its three business segments and reducing currency dependence.

**Paper**

The paper industry remains under pressure as demand continues to fall on increasing adoption of new technologies, resulting in continued oversupply in the market. With limited scope differentiation in the standardized product market that CPH operates in, the company is targeting to become a cost leader in its market. For logistics' and other reasons, including transportation expense, the division supplies within an 800-km radius from its production site and thus has a high exposure to Europe and the EUR currency. The company is continuously working to enhance its cost leadership and competitiveness and recently invested CHF 3.4mn in improving material cycles. In addition, CPH's greenhouse gas emissions per tonne of paper produced has halved within five years, allowing it to lower their carbon footprint.

**Exhibit 7: Paper sales by region – 2016**

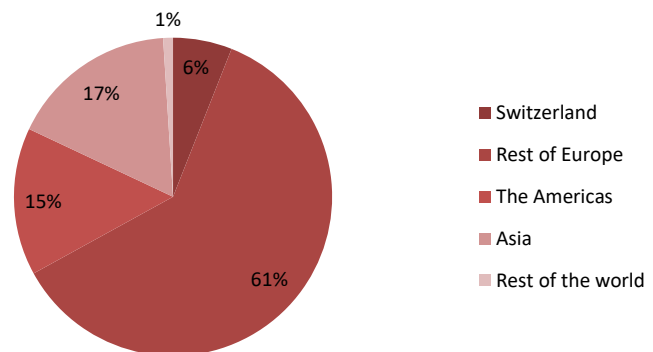


Source: Company data, Research Dynamics

**Packaging**

CHP's packaging division caters to the pharmaceuticals' industry. The division is expanding its presence globally, and with the completion of the new production facility in Suzhou/China, the company has production facilities across the globe (Switzerland, Germany, the USA and China). The expanded division is now working towards ensuring that the synergies between the facilities are exploited to the full. The production plant in China started operations in mid-2016, and a number of commissions for Asian customers was transferred to the new facility. The company aims to substantially increase the division's share of sales from the Asian market, where increasing population and improving medical care is driving demand for medicines. Meanwhile, on the production side, the company is developing new film products with high barrier credentials. The revenue contribution from new products (introduced over the last five years) increased to 17% in 2016, from 15% in 2015.

**Exhibit 8: Packaging sales by region – 2016**

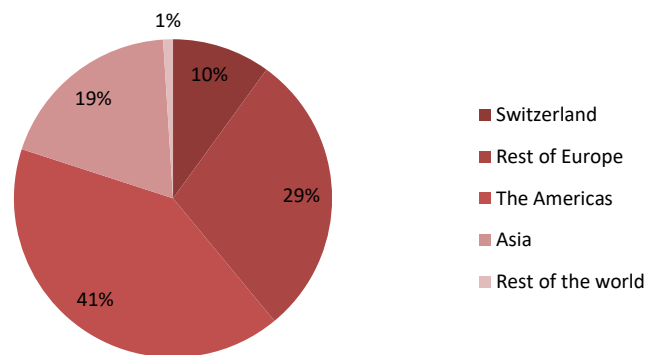


Source: Company data, Research Dynamics

### Chemistry

It was a transformational year for the Chemistry division, with the sale of its Uetikon operating site and the acquisition of China-based molecular sieve manufacturer Jiangsu ALSIO Technology. In addition to lower cost production facilities, the acquisition also enhances the company's product offering, allowing it to provide extrudates and binder-free products as well. The transformation of the division will continue with the company building a new production facility in Bosnia and Herzegovina (close to its long-term and most important raw materials' supplier), spread across a 5,500 sq metre site, with a high single-digit investment. The production of molecular sieve powders, chromatography gels and special zeolites will be transferred at the end of 2017 from the present Swiss location. While the manufacture of deuterated solvents and high-performance gels will remain in Switzerland (and be moved to a new location in Rütli, Canton of Zurich), fertilizer production will be ceased in mid-2017. The strategic realignment will give the Chemistry Division production facilities in the USA, China, Bosnia and Herzegovina and Switzerland, from which it will be well placed to cater to global growth opportunities.

**Exhibit 9: Chemistry sales by region – 2016**



Source: Company data, Research Dynamics

### Outlook and our estimates

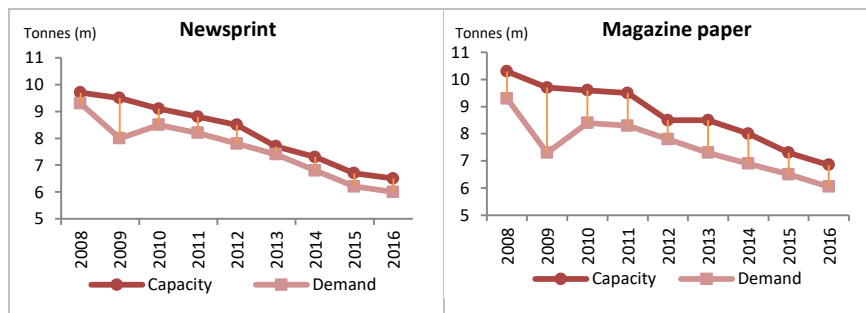
We believe the company will continue to report improving performance and turn profitable again in 2017. Lower foreign currency movement exposure should also reduce the Group's risk profile. The company's increased geographical footprint, especially in the high-growth markets of Asia, should drive growth for CPH in the near term. Lower cost production facilities in China and Bosnia and Herzegovina are expected to support and increase margins. The company has a mid-term organic sales growth target of 3% annually, along with an EBITDA margin of more than 10% (which might be conservative once the investments into the Chemistry and Packaging division, alongside with a stabilization in the Paper segment, are paying off). The company also set a dividend distribution policy of 30-50% depending on free cash flow generation.

#### Paper: Prices stabilize as excess capacity reduces

The paper industry remains in a downturn with falling demand and excess capacity. The demand for newsprint and magazine paper is likely to decrease further in Europe this year.

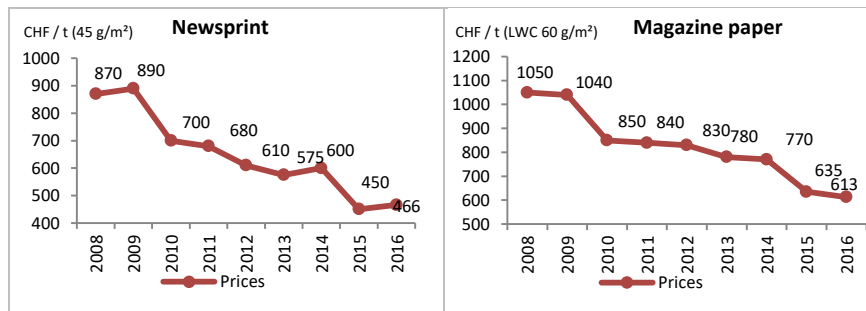
Newsprint paper prices are likely to be stable as the demand/supply gap has narrowed. Still, some 750 000 tonnes of further capacity reductions in the newsprint segment are likely by the end of 2017, which should bring a broad supply/demand balance to the newsprint market. The magazine paper segment continues to see falling demand and, despite capacity reductions, production overcapacity is mostly unchanged at 800,000 tonnes in 2016. Western Europe saw a 3.4% y/y decline in demand for newsprint in 2016 (compared to 6.3% y/y decline in 2015), while magazine paper demand fell 8.5% y/y in 2016, compared with a 4.4% y/y decline the year before. Going forward, demand for newsprint and magazine paper in Europe is expected to continue to decline as people continue to adopt new technologies. Still, newspaper prices are expected to be stable on lower supply/demand (assuming there will be a bottom to the demand), while magazine paper could continue to see pricing pressure. We expect the division's revenues to be flat in 2017, and expect it to marginally break even.

**Exhibit 10: Paper: Demand and supply scenario**



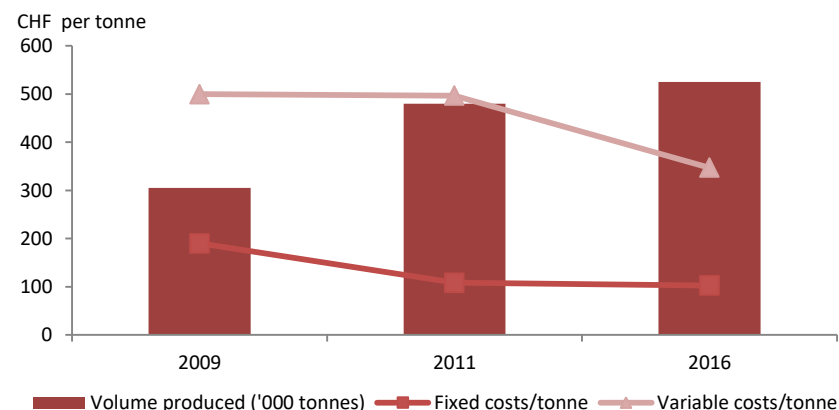
Source: Company data, Research Dynamics

**Exhibit 11: Paper price movements have stabilized in 2016**



Source: Company data, Research Dynamics

**Exhibit 12: Paper: Improving efficiency and falling cost of production**



Source: Company data, Research Dynamics

**Packaging: Revenue and earnings expected to increase**

CPH's Packaging division caters primarily to the pharmaceuticals' industry. The company manufactures PVC mono-films and coated PVdC films which are primarily used in blister packs for medicines. CPH is the market leader in supplying films with high barrier credentials that are most effective at protecting the substances involved from outside elements. The demand is increasing for higher-barrier films as the complexity of the medicinal substances are increasing, thus becoming more sensitive to outside influences. According to the company, the demand for blister packs grew 4-6% in 2016 worldwide, with Asia leading growth while Europe was below average. In addition, low-cost packaging is also witnessing increased demand for inexpensive generic drugs that dominate the pharmaceutical sector in emerging markets. In our view, demand for medicines and medications will remain strong on the back of rising lifestyle-based disorders and increased life expectancy. Thus, the Packaging division plans to increase production at its Chinese plant in 2017 and to strengthen its marketing in the Asian region. This is also expected to lower production costs of the division, resulting in improved margins. Additionally, the company is planning for a capital expenditure of CHF 6mn in 2017 for the division. Segment revenues and earnings are expected to rise in 2017 albeit at a somewhat lower rate, after increasing 8.7% y/y in 2016.

**Chemistry: Acquisition to boost topline growth**

CPH’s Chemistry division produces silica-based molecular sieves used in industrial and chemical industries and the production of fuels. The division also produces chromatography gels used to separate pharmaceutical agents. In 2016, the Chemistry segment saw a significant strategic realignment. In order to mitigate the strength of the Swiss franc and pricing pressures, the company sold its Uetikon operating site to the Canton Zurich for CHF 52mn. Of this, CHF 32mn have been provisioned for the clean-up of the site where, by the latest in 2023, a Cantonal high-school (Gymnasium) is to be built on the site. The remainder, CHF 20mn in cash, was recorded in the 2016 accounts but in the end resulted in a onetime CHF 4.4mn expense due to restructuring and other costs associated with the site. Now, the division is relocating some part of production to Lianyungang, China (ALSIO facilities) and moving to the new plant in Zvornik, Bosnia and Herzegovina. Until the move is completed by the end of 2017, CPH is leasing back the existing manufacturing facility for an estimated amount of around CHF 2mn p.a. Thus, by acquiring a majority (80%) shareholding of China-based molecular sieve manufacturer Jiangsu ALSIO Technology (with the option to take-over the remaining 20% in spring of 2018), the Chemistry segment – besides lowering production cost for more standardized products –also aims to reach the growing Asian market more effectively. In 2016, the demand for molecular sieves was mixed depending on the end industry it caters to. Demand in the energy sector, to purify natural gas and ethanol, remained under pressure albeit energy prices increasing slightly. According to the company, the Chemistry division will continue to pursue its strategic repositioning of internationalization. The division also intends to develop high-value applications along with its chromatography gels and has ear-marked a capex of CHF 17mn for 2017. We expect the division to post a revenue growth of 6.5% y/y to CHF 73.8mn.

**Dividend distribution:** CPH Group announced a dividend proposal of CHF 0.65 per share for FY2016 (up from CHF 0.60 in FY2015) although reporting a net loss. The company has a significant cash position and we believe distributing dividends, while reporting losses, is a sign of confidence of future developments at the company. Also, the company is generating positive free cash flow and the financial situation is likely to improve going forward.

**Valuation and conclusion:** CPH Group businesses operate in largely cyclical industries. This is why we use the discounted cash flow (DCF) methodology to arrive at the intrinsic value of the stock. We have used a weighted average cost of capital (WACC) of 8.1% based on a cost of equity of 11.4% and pre-tax cost of debt of 3.0%. The beta that we used in our calculations is slightly higher due to a couple of reasons, namely the small size of the company and the currently prevailing macroeconomic headwinds such as the volatility in CHF/EUR exchange rate resulting in the sharp spike in the value of the Swiss currency and the low-price regime of the European paper industry. We have forecast cash flows until 2023 and thereafter taken a terminal growth rate of 1%. Based on these factors, we arrive at an intrinsic value of CHF 50 per share, giving it an upside potential of 16% on current prices.

**Sensitivity of Value per share (CHF)**

		Sensitivity Table				
		WACC				
		6.1%	7.1%	8.1%	9.1%	10.1%
Terminal growth rate	0.25%	64	54	46	40	35
	0.50%	67	56	47	41	36
	0.75%	70	58	49	42	37
	1.00%	73	60	50	43	37
	1.25%	76	62	52	44	38
	1.50%	79	64	53	45	39
	1.75%	83	67	55	47	40

Source: Company data, Research Dynamics

Since the group operates in three entirely 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 0.6x (FY2017E), a significant 42% discount over the weighted average of division peers. CPH is trading close to its 3-year average historical P/S multiple.

**Exhibit 13:CPH – Comparison with division peers**

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
CPH Chemie & Paper	14.1x	7.6x	6.6x	0.6x	0.6x	0.6x	23.3x	43.4x	23.0x
<b>Paper peers:</b>									
Holmen	11.8x	10.8x	10.6x	1.3x	1.9x	1.9x	29.8x	17.9x	17.4x
Stora Enso	8.1x	7.6x	7.1x	0.6x	0.8x	0.8x	34.4x	13.7x	12.2x
Altri	8.1x	8.4x	8.7x	1.0x	1.5x	1.5x	1.0x	13.1x	13.9x
Metsa Board	9.9x	8.2x	7.3x	0.8x	1.2x	1.1x	19.9x	15.1x	12.5x
UPM-Kymmene	6.1x	7.2x	7.3x	0.8x	1.2x	1.2x	14.4x	13.8x	13.9x
Norsk Skogindustrier	NA	7.2x	7.6x	NA	0.1x	0.1x	NA	-2.2x	-2.7x
James Cropper	10.9x	NA	NA	0.7x	0.0x	0.0x	26.7x	26.1x	23.9x
OJI Holdings	NA	NA	NA	NA	0.4x	0.4x	NA	13.5x	12.9x
<b>Chemistry peers:</b>									
Honeywell Int.	11.7x	11.7x	10.9x	2.0x	2.4x	2.3x	17.0x	17.8x	16.4x
Clariant	10.4x	8.4x	8.0x	0.9x	1.0x	1.0x	25.0x	14.9x	13.9x
Arkema	7.1x	6.4x	6.0x	0.7x	0.9x	0.8x	22.3x	14.5x	13.1x
WR Grace & Co.	13.0x	11.8x	11.0x	1.9x	2.9x	2.8x	16.5x	20.8x	18.4x
<b>Packaging peers:</b>									
Meadwestwaco	11.0x	NA	NA	1.4x	NA	NA	35.1x	NA	NA
MacFarlane Group	8.2x	0.1x	0.1x	0.4x	0.0x	0.0x	12.4x	10.2x	9.8x
Gerresheimer	9.7x	9.7x	9.2x	1.5x	1.6x	1.5x	25.7x	16.7x	15.4x
West Pharmaceutical Services	17.9x	17.1x	15.0x	3.0x	3.9x	3.6x	37.5x	33.5x	28.6x
Convertidora Industrial	8.9x	7.2x	6.5x	0.4x	0.3x	0.3x	25.5x	NA	NA
PSB Industries	5.9x	6.0x	5.6x	0.6x	0.5x	0.5x	10.5x	10.2x	9.0x
Astrapak Ltd	10.3x	NA	NA	0.5x	NA	NA	71.5x	11.1x	9.8x
Bilcare Ltd	7.8x	NA	NA	0.1x	NA	NA	1.7x	NA	NA
Median	9.8x	8.2x	7.6x	0.8x	1.0x	1.0x	23.7x	14.5x	13.9x
High	17.9x	17.1x	15.0x	3.0x	3.9x	3.6x	71.5x	33.5x	28.6x
Low	5.9x	0.1x	0.1x	0.1x	0.0x	0.0x	1.0x	-2.2x	-2.7x
Premium (disc) to peers	44%	(7%)	(13%)	(31%)	(42%)	(42%)	NA	199%	66%

Source: Bloomberg (as on 27 February 2017)

**Exhibit 14:CPH – Comparison with weighted average of division peers**

	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
Weighted peer multiples	10.2x	8.9x	8.4x	1.1x	1.3x	1.2x	21.9x	14.5x	13.4x
CPH	14.1x	7.6x	6.6x	0.6x	0.6x	0.6x	23.3x	43.4x	23.0x
Premium (disc) to peers	38%	(15%)	(21%)	(46%)	(54%)	(54%)	NM	199%	72%

Source: Bloomberg ( as on 27 February 2017)

## DETAILED FINANCIAL STATEMENTS

### Income statement

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Chemistry sales	68	59	60	63	69	74	79
Paper sales	314	306	314	248	246	247	251
Packaging sales	106	116	118	110	119	126	133
<b>Net Sales</b>	<b>489</b>	<b>481</b>	<b>492</b>	<b>420</b>	<b>435</b>	<b>446</b>	<b>463</b>
Cost of Sales	(325)	(323)	(313)	(285)	(267)	(275)	(284)
<b>Gross profit</b>	<b>163</b>	<b>158</b>	<b>180</b>	<b>135</b>	<b>168</b>	<b>171</b>	<b>179</b>
Personnel cost	(85)	(86)	(88)	(86)	(89)	(87)	(88)
Outsourced maintenance/repairs	(19)	(19)	(18)	(16)	(18)	(18)	(19)
Other operating expense	(21)	(22)	(23)	(21)	(25)	(25)	(25)
<b>Total operating costs</b>	<b>(125)</b>	<b>(127)</b>	<b>(129)</b>	<b>(123)</b>	<b>(131)</b>	<b>(129)</b>	<b>(131)</b>
<b>EBITDA</b>	<b>38</b>	<b>31</b>	<b>51</b>	<b>12</b>	<b>37</b>	<b>42</b>	<b>48</b>
Depreciation on tangible fixed assets	(59)	(57)	(34)	(34)	(31)	(31)	(31)
Depreciation on intangible assets	(2)	(1)	(1)	(0)	(1)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>(22)</b>	<b>(27)</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>10</b>	<b>16</b>
Impairment	0	(251)	0	0	0	0	0
<b>Operating profit (EBIT)</b>	<b>(22)</b>	<b>(278)</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>10</b>	<b>16</b>
Finance costs	(7)	(5)	(7)	(13)	(6)	(6)	(6)
Finance income	1	1	2	1	1	0	0
<b>Total financial income (expenses)</b>	<b>(6)</b>	<b>(4)</b>	<b>(6)</b>	<b>(12)</b>	<b>(5)</b>	<b>(6)</b>	<b>(6)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>(28)</b>	<b>(281)</b>	<b>10</b>	<b>(34)</b>	<b>1</b>	<b>5</b>	<b>10</b>
Non-operating items	38	2	1	2	(4)	0	0
Income taxes	(2)	8	(1)	(1)	(4)	(0)	(1)
<b>Profit attributable to the parent</b>	<b>8</b>	<b>(271)</b>	<b>11</b>	<b>(33)</b>	<b>(8)</b>	<b>4</b>	<b>9</b>
<b>Basic EPS</b>	<b>1.3</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>0.7</b>	<b>1.5</b>
<b>Diluted EPS</b>	<b>1.3</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>0.7</b>	<b>1.5</b>
<b>DPS</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>

Source: Company data, Research Dynamics

### Balance sheet

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	719.7	433.7	419.1	404.3	384.6	390.3	378.6
Intangible assets	1.5	1.2	1.3	2.4	3.1	4.0	5.1
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	2.8	0.0	0.0	0.0	0.0
Other non-current assets	21.2	22.4	22.7	20.2	52.6	52.6	52.6
<b>Total Non Current Assets</b>	<b>752.4</b>	<b>467.3</b>	<b>456.0</b>	<b>436.9</b>	<b>450.3</b>	<b>457.0</b>	<b>446.4</b>
<b>Current assets</b>							
Inventories	58.8	56.9	63.4	54.5	68.9	59.8	55.5
Trade accounts receivable	74.0	70.8	79.5	66.4	69.1	67.3	69.8
Other receivables	10.7	7.3	7.7	8.0	8.9	8.9	8.9
Prepaid expenses and accrued income	3.0	5.3	6.6	4.9	4.8	4.8	4.8
Short-term financial receivables	0.2	0.0	0.1	0.0	0.1	0.1	0.1
Liquid funds and Securities	73.3	74.2	75.1	53.2	70.4	65.3	80.5
<b>Total assets</b>	<b>972.4</b>	<b>681.8</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>663.1</b>	<b>665.9</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	20.1	16.2	12.3	8.4	4.8	0.9	(3.0)
Profit reserves	651.6	659.5	389.2	397.4	351.2	343.3	347.3
Net result for the year	8.1	(271.5)	10.5	(33.1)	(7.9)	4.0	8.8
<b>Non-current liabilities</b>							
Long-term financial liabilities	144.0	117.9	128.0	126.5	145.6	129.2	125.8
Pension scheme liabilities	0.5	0.7	0.6	1.0	1.1	1.1	1.1
Other long-term liabilities	0.0	2.5	2.4	2.3	0.1	0.1	0.1
Long-term provisions	31.3	21.3	20.8	20.0	52.5	52.5	52.5
<b>Current liabilities</b>							
Trade accounts payable	52.9	59.4	53.8	46.7	53.1	50.4	52.3
Other payables	2.6	4.4	3.9	2.6	8.3	8.3	8.3
Accrued liabilities and deferred income	15.8	11.0	9.1	13.6	16.5	16.5	16.5
Short-term financial liabilities	9.8	23.0	22.6	6.8	7.0	23.3	22.7
Short-term provisions	5.7	7.2	5.1	1.5	7.6	0.9	0.9
<b>Total liabilities</b>	<b>262.6</b>	<b>247.5</b>	<b>246.4</b>	<b>221.2</b>	<b>291.6</b>	<b>282.2</b>	<b>280.1</b>
<b>Total equity and liab.</b>	<b>972.4</b>	<b>681.8</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>663.1</b>	<b>665.9</b>

Source: Company data, Research Dynamics

### Cash flow statement

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net profit for the period	8.1	(271.5)	10.5	(33.1)	(7.7)	4.0	8.8
Non-cash adjustments:	20.8	298.8	30.3	35.3	33.9	31.4	32.1
<b>Change in current assets and liabilities:</b>							
(Increase)/ decrease in inventories	(1.7)	(2.6)	(5.5)	8.4	(13.1)	9.1	4.3
Decrease in trade accounts receivable	1.3	3.4	(11.2)	8.1	(0.5)	1.8	(2.5)
Increase/ (decrease) in trade accounts payable	13.0	6.4	(5.8)	(6.8)	1.6	(2.7)	1.9
Other changes in working capital	0.8	(3.0)	1.5	6.5	5.6	(6.7)	-
<b>Cash flows from operating activities</b>	<b>42.3</b>	<b>31.4</b>	<b>19.8</b>	<b>23.3</b>	<b>21.9</b>	<b>36.9</b>	<b>44.6</b>
Investments in tangible fixed assets	(10.9)	(18.2)	(19.2)	(21.9)	(20.7)	(36.5)	(19.5)
Disposals of tangible fixed assets	30.1	0.9	0.4	1.6	20.5	-	-
Investments in intangible assets	(0.3)	(0.5)	(0.6)	(1.6)	(1.2)	(1.5)	(2.0)
Sale of subsidiary/ Divestiture of interests	-	-	-	-	-	-	-
Repayment of long-term financial receivables	2.5	0.0	-	-	-	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>21.4</b>	<b>(17.8)</b>	<b>(19.4)</b>	<b>(22.0)</b>	<b>(19.9)</b>	<b>(38.1)</b>	<b>(21.5)</b>
Increase/ (Decrease) in short-term financial liabilities and receivables	(1.5)	(2.0)	(0.4)	(15.3)	0.1	16.3	(0.6)
Increase/ (Decrease) in long-term financial liabilities	(25.1)	(10.8)	9.8	(1.1)	19.0	(16.3)	(3.4)
Increase in other long-term liabilities	0.0	2.5	(0.2)	(0.1)	(0.4)	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)
<b>Cash flow generated (used) in financing activities</b>	<b>(30.6)</b>	<b>(14.2)</b>	<b>5.3</b>	<b>(20.4)</b>	<b>15.2</b>	<b>(3.9)</b>	<b>(7.9)</b>
Exchange (losses)/gains	0.1	(0.2)	0.2	2.3	0.1	-	-
<b>Net change in cash</b>	<b>33.2</b>	<b>(0.7)</b>	<b>6.0</b>	<b>(16.7)</b>	<b>17.2</b>	<b>(5.1)</b>	<b>15.2</b>
Opening cash balance	31.5	64.7	63.9	69.9	53.1	70.3	65.2
<b>Closing cash balance</b>	<b>64.7</b>	<b>63.9</b>	<b>69.9</b>	<b>53.1</b>	<b>70.3</b>	<b>65.2</b>	<b>80.4</b>

Source: Company data, Research Dynamics

### Key ratios

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Growth Ratios</b>							
Sales Growth	(6%)	(2%)	2%	(15%)	4%	3%	4%
Chemistry division	(33%)	(13%)	2%	4%	11%	6%	7%
Paper division	(0%)	(3%)	3%	(21%)	(1%)	0%	2%
Packaging division	1%	9%	1%	(7%)	9%	5%	6%
Operating Profit Growth	NM	NM	NM	NM	NM	75%	51%
Net Income Growth	NM	NM	NM	NM	NM	NM	120%
<b>Profitability Ratios (%)</b>							
Operating margin (before impairment) (%)	(5%)	(6%)	3%	(5%)	1%	2%	3%
Chemistry division	(0%)	(9%)	(4%)	(3%)	2%	4%	5%
Paper division	(8%)	(10%)	4%	(11%)	(2%)	0%	2%
Packaging division	5%	6%	4%	5%	8%	6%	6%
EBITDA Margin %	8%	6%	10%	3%	8%	9%	10%
Net Margin (%)	2%	(56%)	2%	(8%)	(2%)	1%	2%
<b>Return Ratios</b>							
Profit Margin	2%	(56%)	2%	(8%)	(2%)	1%	2%
Asset Turnover	0.5x	0.6x	0.7x	0.6x	0.7x	0.7x	0.7x
Financial Leverage	1.4x	1.4x	1.6x	1.6x	1.7x	1.8x	1.7x
Dupont ROE (%)	1%	(47%)	2%	(8%)	(2%)	1%	2%
ROCE (%)	(3%)	(5%)	3%	(4%)	1%	2%	3%
ROA (%)	1%	(33%)	2%	(5%)	(1%)	1%	1%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.2x	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x
Net Debt - Equity Ratio	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Interest Coverage	(3.2x)	(6.0x)	5.2x	(5.5x)	1.4x	1.8x	2.7x
<b>Liquidity Ratios</b>							
Current Ratio	2.5x	2.0x	2.5x	2.6x	2.4x	2.1x	2.2x
Quick Ratio	1.9x	1.5x	1.8x	1.9x	1.7x	1.5x	1.6x
<b>Valuation Ratios</b>							
EV/EBITDA	12.3x	13.7x	6.2x	25.8x	9.1x	8.0x	7.0x
P/E	48.4x	NM	22.9x	NM	NM	65.1x	29.6x

Source: Company data, Research Dynamics

CPH Chemie + Papier Holding AG ("CPH") is a client of Research Dynamics. The equity research report(s) are prepared for informational purposes only and are paid for by the company portrayed in the report. Research Dynamics is a division of Dynamics Group AG. Dynamics Group is an independent consultancy firm focused on strategic advisory, communication management and research and analysis.

This report (henceforth known as "document") has been drafted by the authors concerned as a non-binding opinion on the market situation and on the instruments of investment in question and compiled by Dynamics Group in order to provide background information about the companies. It is intended exclusively for the purpose of information.

Dynamics Group has not individually verified the information and data on which this document is based. All information and data in this document originate from generally available sources which the author concerned or Dynamics Group viewed as reliable at the time of drafting this document. However, no liability can be assumed for their correctness, accuracy, completeness and appropriateness – neither expressly nor tacitly. The contents of this document do not represent an assurance or guarantee by the authors concerned or Dynamics Group. Forward-looking information or statements in this document contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations

Dynamics Group shall not be liable for any consequential damage to properties – on whatever legal grounds it may be. Liability of Dynamics Group on account of premeditation or gross negligence shall remain unaffected by this.

Dynamics Group has no permission to provide assurances or assume guarantees on behalf of the companies or a third party mentioned in this document. Neither the companies mentioned in this document nor any other individual assumes liability for any loss, damage or detriment that may result from the use of this document, especially when taking decisions on investments, or from other reasons. Dynamics Group cannot be held responsible for detrimental consequences that occur or may occur due to the use or its omission based on the views and inferences contained in this document. Past performance trends of value, price or rates do not provide any indications to the future trends for an investment. Dynamics Group does not provide any guarantees for the suggested yield or the achievement of referred targets.

This document does neither represent an offer of purchase, holding or sale of any securities, money market instruments or of derivatives, nor does it contain the basis for a contract or a commitment of any kind. Every investment, for example, in debentures, shares and options, is associated with enormous risks. A decision on investment with regard to any security may not be based on this document. This document is neither an advice on investment, nor a recommendation or invitation for purchasing, holding or selling any securities, money market instruments or derivatives.

Dynamics Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this document. However, the respective directors, employees and contractors of Dynamics Group may hold positions in the described securities and/or options, futures and other derivatives that are based on these securities.

This document has been provided to you for information only. It may not be reproduced or distributed to others or published in any other form partially or fully.

The distribution of this document and the information contained therein may be restricted in other jurisdictions by law and persons who may come into possession of this document must be aware of possible restrictions and adhere to the same. Failure to comply with such restrictions may constitute an infringement of the laws in USA or Canada governing the securities or of the laws of any other jurisdiction.

This study is protected by the copyright laws. It may be used only for the purpose as defined in this disclaimer. Portions of the study, if quoted, must be acknowledged by indicating the source. Any use other than this shall require prior written permission by Dynamics Group. Reproduction, circulation, publication and provision of online access to the document shall be regarded as its use and the same shall require permission. Circulation of this document, especially in a foreign country, may be permitted only under the provisions of the disclaimer and the applicable regulations. Unauthorized use of the study or omission of details of the source or the acknowledgement of copyright may lead to initiation of a civil suit for damages and be liable for prosecution.

If any part or individual formulations of this disclaimer are found to be unsustainable or become unsustainable at a future date, the rest of the contents and their validity shall not be affected by it.

---

## 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)