CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

1H 2018 earnings update

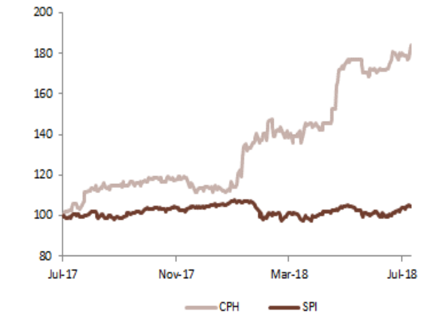
24 July 2018

Company Data

Price:	CHF 88.50
Market Cap:	CHF 531.0mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	798
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2016	2017	2018E	2019E
Sales	434.8	469.8	527.4	524.7
EBITDA %	8.5%	7.2%	14.5%	12.7%
EBIT %	1.4%	0.6%	8.7%	7.0%
Net Margin %	(1.8%)	3.4%	6.5%	5.0%
Basic EPS	(1.32)	2.66	5.73	4.36
Diluted EPS	(1.32)	2.66	5.73	4.36
DPS	0.65	0.65	2.86	2.18
Equity Ratio %	56.2%	56.4%	56.7%	59.6%
Capex	(1.5)	(19.3)	(19.7)	(21.4)
P/Sales	1.2x	1.3x	1.0x	1.0x
P/E	NM	32.1x	14.9	19.6
EV/EBITDA	15.9x	17.4x	7.7x	8.8x

Source: Research Dynamics, Company data

Next Events

Investor's Meeting in Perlen	13 Sep 2018
Annual Results 2018	26 Feb 2019

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Profitability soared on turnaround in the Paper division and strong results in Packaging

Robust 1H2018 results, with top line growing in double digits

CPH reported a healthy set of numbers with top line increasing by 14.0% YoY to CHF 264.1mn, driven by higher capacity utilisation and stable fixed cost across the divisions. This resulted in a significantly higher operating leverage which was coupled with favourable business trends and good market conditions. Group EBIT improved noticeably to CHF 27.8mn from CHF 1.1mn in 1H2017, and thus the EBIT margin was considerably higher at 10.5% compared to 0.5% in the same period last year. Although all divisions reported a positive EBIT for the period, the primary reason for the overall growth in profitability was the robust performance at the Paper division, which could finally capitalize on the long-lasting consolidation of the paper industry. The Paper division reported a strong EBIT of CHF 14.8mn compared to CHF -6.0mn in 1H2017 and thus the margin improved to 10.0% from a negative 4.7% during the same period last year. The company overall reported a net profit of CHF 22.6mn against a negative result of CHF 2.2mn, corresponding to a margin of 8.6% compared to -1.0% in 1H2017.

Segmental performance

Paper: The continuous capacity reductions over the past years have brought down the supply-demand imbalance in the paper industry to a great extent, and thus paper prices witnessed a recovery for the first time during the first half of 2018. The recovery translated into higher sales for the Paper division. The reported top line amounted to CHF148.1mn, up 15.6% YoY, also benefiting from FX tailwinds as around 80% of sales are exported to the adjacent Eurozone. However, the paper industry is still challenging as the demand for newsprint paper further declined by around 8% in 1H2018, compared to a decrease of 6% in 1H2017. The divisional EBIT increased significantly to CHF 14.8mn from a negative CHF 6.0mn in 1H2017 and the corresponding margin amounted to 10.0% compared to -4.7%. The primary reason of the improved profitability was the successful integration of the paper recovery activities of Papierfabrik Utzenstorf, thanks to which more recycled paper can be sourced from Switzerland itself, directly reducing overall transportation costs of the division.

Packaging: Net sales at the Packaging division increased by 20.1% YoY to a record high of CHF 78.6mn from CHF 65.5mn in 1H2017. The rise in sales was primarily attributable to the further growth of the pharmaceuticals market in Europe (~3%), which ultimately translated into higher demand for high-barrier film products and mono-films during the period. Divisional EBIT significantly improved to CHF 9.6mn from CHF 5.5 and thus the EBIT margin also improved encouragingly to 12.3% from 8.4% in 1H2017. The improved profitability was attributable to the higher utilization of the existing facility and further capacity expansion at the Suzhow plant in China coupled with benefits arising out of operating leverage. During the first quarter, the company acquired a 60% holding in Sekoya Indústria e Comércio Ltda. of Brazil and renamed it to Perlen Packaging Ltd. Management believes that the step will strengthen the local distribution channel further.

Chemistry: The Chemistry division reported a slight drop of 1.9% YoY in net sales to CHF 38.3mn in 1H2018. The drop was primarily attributable to the termination of the fertilizer production business in mid-2017 and the production shift from Uetikon to the new facility in Zvornik in Bosnia-Herzegovina during the second half of 2017, where production was getting ramped up during the first half of 2018. The segment reported an increase of 85.3% at the EBIT level to CHF 3.4mn with a corresponding margin improvement to 9.2% from 4.9% in 1H2017. The margin expansion was primarily due to the closure of the Uetikon site which had a positive effect on the division's overall cost structure. During the period, the company acquired the molecular sieve distribution activities of Shanghai Yusheng Chemical Co. ltd retroactively as of 31 March 2018.

Increase of full-year guidance

On the basis of the very good first half-year results, the group expects to report significantly higher net sales and consolidated earnings for the full year 2018, assuming a benign currency environment. According to management, the newly acquired businesses of Armar and Yusheng in the Chemistry division, APS (former Papierfabrik Utzenstorf) in the Paper and Sekoya in the Packaging will have a positive impact on overall sales volume of the company.

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Paper: The company expects paper prices to remain at the current level during 2H2018 for newsprint and magazine paper despite weakness in the demand. While the division's revenues should also increase for FY2018 overall, EBIT is expected to remain in-line with the first-half. Management is determined to keep up the efforts to enhance efficiencies further.

Packaging: The transfer of new orders to the Chinese production facility (from Switzerland) will drive sales growth in the Asia-Pacific region and is expected to result in margin improvements. For FY2018, the group expects to report higher net sales and an EBIT well above the prior-year level.

Chemistry: The newly integrated businesses (acquisition of the molecular sieve distribution activities of Shanghai Yusheng Chemical Co. Ltd) and internal restructuring efforts are expected to drive revenue growth further. For FY2018, the division expects to report higher sales and a substantial improvement in EBIT compared to the previous year assuming the margin remains stable.

Estimate change

We have revised our estimates based on the performance in 1H2018 and positive guidance given by the company. We estimate the full year revenue to be at CHF 527.4mn, an increase of 8.1% from our earlier forecast. Operating profit revised upwards to CHF 45.7mn from CHF 15mn. Consequently, the net earnings is expected to be around CHF 34.3mn compared to CHF 7.0mn estimated previously. However, we expect paper prices to again come under pressure in 2H18 and forward. Accordingly, we have adjusted our estimates for the future periods.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. In the DCF analysis, we have used a market risk premium (MRP) of 8.2% and a beta of 0.9. Being conservative, we have considered a higher risk-free rate of 0.5% compared to the current 10 year government bond yield of 0.04% as we believe it is not sustainable in the long term. Based on our assumptions, we arrive at an intrinsic value of CHF 101.2 per share (vs. previous target of CHF 80.5), giving it an upside potential of 14.3% compared to current levels.

We have used three parameters – EV/EBITDA, P/S and P/E – to analyze 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 1.0x (FY2018E), a significant 51% discount over the weighted average of division peers.

We believe in the medium-term, the stock could trade at higher multiples on account of an increased contribution of sales and operating profits expected out of the Asia-Pacific region and higher operating efficiencies from the new production facilities, as well as from the positive momentum the company is experiencing after years of restructuring processes. The Paper division is finally bearing fruits from its perseverant strategy, outpacing competitors with a lead in technology and operational excellence.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
CPH Chemie & Paper	9.4x	7.7x	8.8x	0.6x	1.0x	1.0x	24.6x	14.9x	19.6x
Paper peers:									
Holmen	7.8x	10.5x	10.4x	1.0x	1.9x	1.9x	15.2x	16.2x	16.9x
Stora Enso	6.3x	7.1x	7.0x	0.4x	1.0x	1.0x	11.6x	11.2x	11.3x
Altri	7.9x	7.7x	7.5x	0.7x	2.4x	2.3x	10.4x	10.9x	10.7x
Metsa Board	5.8x	9.3x	8.6x	0.4x	1.5x	1.4x	15.2x	15.0x	13.3x
UPM-Kymmene	6.1x	8.2x	8.3x	0.5x	1.5x	1.5x	11.3x	13.2x	13.3x
Norkse Scogindustrier	NA	NA	NA	NA	NA	NA	88.6x	NA	NA
James Cropper	2.6x	0.2x	0.1x	0.3x	0.0x	0.0x	9.1x	30.8x	22.9x
OJI Holdings	NA	NA	NA	NA	0.4x	0.4x	11.6x	11.8x	12.1x
Chemistry peers:									
Honeywell Int.	8.4x	12.9x	12.0x	1.4x	2.6x	2.5x	14.2x	18.7x	17.2x
Clariant	6.6x	NA	NA	0.6x	NA	NA	11.1x	NA	NA
Arkema	5.4x	6.3x	6.0x	0.7x	0.9x	0.9x	9.8x	11.8x	11.3x
WR Grace & Co.	7.8x	11.1x	10.3x	1.7x	2.6x	2.4x	15.9x	18.6x	16.7x
Packaging peers:									
Meadvestwaco	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	15.2x	14.4x
Gerresheimer	7.0x	10.3x	9.8x	1.0x	1.7x	1.6x	14.2x	16.3x	16.8x
West Pharmaceutical Services	9.9x	19.6x	17.0x	1.7x	4.2x	3.9x	20.1x	35.0x	30.4x
Convertidora Industrial	8.4x	NA	NA	0.4x	NA	NA	NA	NA	NA
PSB Industries	4.6x	6.5x	6.0x	0.4x	0.5x	0.5x	8.1x	5.5x	10.4x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	9.4x	NA	NA
Bilcare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	6.2x	8.2x	8.3x	0.6x	1.5x	1.5x	11.6x	15.1x	13.8x
High	9.9x	19.6x	17.0x	1.7x	4.2x	3.9x	88.6x	35.0x	30.4x
Low	2.6x	0.1x	0.1x	0.2x	0.0x	0.0x	2.7x	5.5x	10.4x
Premium (disc) to peers	52%	(6%)	6%	(1%)	(35%)	(33%)	NA	(1%)	42%

Source: Thomson Eikon (as on 23 July 2018)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Weighted peer multiples	6.7x	9.9x	9.2x	0.8x	2.0x	1.9x	11.6x	17.0x	15.8x
CPH	9.4x	7.7x	8.8x	0.6x	1.0x	1.0x	24.6x	14.9x	19.6x
Premium (disc) to peers	41%	(22%)	(4%)	(28%)	(51%)	(49%)	NM	(12%)	24%

Source: Thomson Eikon (as on 23 July 2018)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY13	FY14	FY15	FY16	FY17	FY18E	FY9E
Chemistry sales	59	60	63	69	75	79	83
Paper sales	306	314	248	246	264	301	285
Packaging sales	116	118	110	119	130	147	157
Net Sales	**481**	**492**	**420**	**435**	**470**	**527**	**525**
Cost of Sales	(323)	(313)	(285)	(267)	(309)	(317)	(318)
Gross profit	**158**	**180**	**135**	**168**	**161**	**210**	**207**
Personnel cost	(86)	(88)	(86)	(89)	(84)	(91)	(93)
Outsourced maintenance/repairs	(19)	(18)	(16)	(18)	(17)	(16)	(18)
Other operating expense	(22)	(23)	(21)	(25)	(26)	(27)	(29)
Total operating costs	**(127)**	**(129)**	**(123)**	**(131)**	**(127)**	**(133)**	**(140)**
EBITDA	**31**	**51**	**12**	**37**	**34**	**77**	**67**
Depreciation on tangible fixed assets	(57)	(34)	(34)	(31)	(30)	(30)	(29)
Depreciation on intangible assets	(1)	(1)	(0)	(1)	(1)	(0)	(0)
Operating profit (EBIT) before impairment	**(27)**	**16**	**(22)**	**6**	**3**	**46**	**37**
Impairment	(251)	0	0	0	0	0	0
Operating profit (EBIT)	**(278)**	**16**	**(22)**	**6**	**3**	**46**	**37**
Finance costs	(5)	(7)	(13)	(6)	(8)	(6)	(5)
Finance income	1	2	1	1	2	0	0
Total financial income (expenses)	**(4)**	**(6)**	**(12)**	**(5)**	**(7)**	**(6)**	**(5)**
Profit before taxes (before exceptional items)	**(281)**	**10**	**(34)**	**1**	**(4)**	**40**	**32**
Non-operating items	2	1	2	(4)	23	1	1
Income taxes	8	(1)	(1)	(4)	(3)	(6)	(6)
Profit attributable to the parent	**(271)**	**11**	**(33)**	**(8)**	**16**	**34**	**26**
Basic EPS	(45.2)	1.8	(5.5)	(1.3)	2.7	5.7	4.4
Diluted EPS	(45.2)	1.8	(5.5)	(1.3)	2.7	5.7	4.4
DPS	0.7	0.7	0.6	0.7	0.7	2.9	2.2

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Assets							
Non-current assets							
PPE	433.7	419.1	404.3	384.6	384.1	376.0	365.6
Intangible assets	1.2	1.3	2.4	3.1	4.8	4.8	6.8
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Other non-current assets	22.4	22.7	20.2	52.6	56.4	56.4	56.4
Total non-current assets	467.3	456.0	436.9	450.3	455.3	447.3	438.8
Current assets							
Inventories	56.9	63.4	54.5	68.9	59.2	65.0	63.5
Trade accounts receivable	70.8	79.5	66.4	69.1	77.8	82.5	82.0
Other receivables	7.3	7.7	8.0	8.9	18.0	21.5	21.5
Prepaid expenses and accrued income	5.3	6.6	4.9	4.8	7.0	7.0	7.0
Short-term financial receivables	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Liquid funds and Securities	74.2	75.1	53.2	70.4	80.2	85.6	98.2
Total assets	**681.8**	**688.4**	**624.0**	**672.4**	**697.6**	**708.8**	**711.0**
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	30.0	12.0	12.0
Capital reserves	16.2	12.3	8.4	4.8	0.8	18.8	18.8
Profit reserves	659.5	389.2	397.4	351.2	346.4	336.5	367.0
Net result for the year	(271.5)	10.5	(33.1)	(7.9)	16.0	34.3	26.2
Non-current liabilities							
Long-term financial liabilities	117.9	128.0	126.5	145.6	143.5	126.4	109.5
Pension scheme liabilities	0.7	0.6	1.0	1.1	0.6	0.6	0.6
Other long-term liabilities	2.5	2.4	2.3	0.1	0.0	0.2	0.2
Long-term provisions	21.3	20.8	20.0	52.5	51.8	51.8	51.8
Current liabilities							
Trade accounts payable	59.4	53.8	46.7	53.1	69.5	72.3	72.2
Other payables	4.4	3.9	2.6	8.3	3.3	6.7	6.7
Accrued liabilities and deferred income	11.0	9.1	13.6	16.5	17.2	17.2	17.2
Short-term financial liabilities	23.0	22.6	6.8	7.0	9.8	22.8	19.8
Short-term provisions	7.2	5.1	1.5	7.6	5.6	5.6	5.6
Total liabilities	**247.5**	**246.4**	**221.2**	**291.6**	**301.3**	**303.7**	**283.6**
Total equity and liab.	**681.8**	**688.4**	**624.0**	**672.4**	**697.6**	**708.8**	**711.0**

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net profit for the period	(271.5)	10.5	(33.1)	(7.7)	16.2	34.3	26.2
Non-cash adjustments:	298.8	30.3	35.3	33.9	(1.5)	30.8	29.9
Change in current assets and liabilities:							
(Increase)/ decrease in inventories	(2.6)	(5.5)	8.4	(13.1)	13.6	(5.8)	1.5
Decrease in trade accounts receivable	3.4	(11.2)	8.1	(0.5)	(7.7)	(4.6)	0.4
Increase/ (decrease) in trade accounts payable	6.4	(5.8)	(6.8)	1.6	15.8	2.8	(0.1)
Other changes in working capital	(3.0)	1.5	11.5	7.7	(4.2)	(3.5)	-
Cash flows from operating activities	**31.4**	**19.8**	**23.3**	**21.9**	**32.2**	**54.0**	**57.9**
Investments in tangible fixed assets	(18.2)	(19.2)	(21.9)	(20.7)	(32.3)	(19.2)	(19.0)
Disposals of tangible fixed assets	0.9	0.4	1.6	20.5	15.4	-	-
Investments in intangible assets	(0.5)	(0.6)	(1.6)	(1.2)	(2.4)	(0.5)	(2.4)
Investments in business activities	-	-	-	(18.5)	-	(21.0)	-
Repayment of long-term financial receivables	0.0	-	-	-	-	-	-
Cash flow generated (used) in investment act.	**(17.8)**	**(19.4)**	**(22.0)**	**(19.9)**	**(19.3)**	**(40.7)**	**(21.4)**
Increase/ (Decrease) in short-term financial liabilities and receivables	(2.0)	(0.4)	(15.3)	0.1	1.0	13.0	(3.1)
Increase/ (Decrease) in long-term financial liabilities	(10.8)	9.8	(1.1)	19.0	(0.6)	(17.0)	(16.9)
Increase in other long-term liabilities	2.5	(0.2)	(0.1)	(0.4)	0.2	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)	(3.9)
Cash flow generated (used) in financing act.	**(14.2)**	**5.3**	**(20.4)**	**15.2**	**(3.3)**	**(7.9)**	**(23.9)**
Exchange (losses)/gains	(0.2)	0.2	2.3	0.1	0.2	-	-
Net change in cash	**(0.7)**	**6.0**	**(16.7)**	**17.2**	**9.8**	**5.4**	**12.6**
Opening cash balance	64.7	63.9	69.9	53.1	70.3	80.1	85.5
Closing cash balance	**63.9**	**69.9**	**53.1**	**70.3**	**80.1**	**85.5**	**98.1**

Source: Research Dynamics, Company data

Key Ratios

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Growth Ratios							
Sales Growth	(2%)	2%	(15%)	4%	8%	12%	(1%)
Chemistry division	(13%)	2%	4%	11%	9%	5%	5%
Paper division	(3%)	3%	(21%)	(1%)	7%	14%	(5%)
Packaging division	9%	1%	(7%)	9%	9%	13%	7%
Operating Profit Growth	NM	NM	NM	NM	(51%)	NM	(20%)
Net Income Growth	NM	NM	NM	NM	NM	115%	(24%)
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(6%)	3%	(5%)	1%	1%	9%	7%
Chemistry division	(9%)	(4%)	(3%)	2%	5%	7%	7%
Paper division	(10%)	4%	(11%)	(2%)	(5%)	9%	7%
Packaging division	6%	4%	5%	8%	7%	8%	8%
EBITDA Margin %	6%	10%	3%	8%	7%	15%	13%
Net Margin (%)	(56%)	2%	(8%)	(2%)	3%	7%	5%
Return Ratios							
Profit Margin	(56%)	2%	(8%)	(2%)	3%	7%	5%
Asset Turnover	0.6x	0.7x	0.6x	0.7x	0.7x	0.8x	0.7x
Financial Leverage	1.4x	1.6x	1.6x	1.7x	1.8x	1.8x	1.7x
Dupont ROE (%)	(47%)	2%	(8%)	(2%)	4%	9%	6%
ROCE (%)	(5%)	3%	(4%)	1%	1%	9%	7%
ROA (%)	(33%)	2%	(5%)	(1%)	2%	5%	4%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x	0.3x
Net Debt - Equity Ratio	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x
Interest Coverage	(6.0x)	5.2x	(5.5x)	1.4x	0.7x	8.0x	7.0x
Liquidity Ratios							
Current Ratio	2.0x	2.5x	2.6x	2.4x	2.3x	2.1x	2.2x
Quick Ratio	1.5x	1.8x	1.9x	1.7x	1.7x	1.6x	1.7x
Valuation Ratios							
EV/EBITDA	13.7x	6.2x	25.8x	15.9x	17.4x	7.7x	8.8x
P/E	NM	22.9x	NM	NM	32.1x	14.9x	19.6x
P/BV	0.8x	0.5x	0.6x	1.4x	1.3x	1.3x	1.2x

Source: Research Dynamics, Bloomberg, Company data

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