

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Guidance update

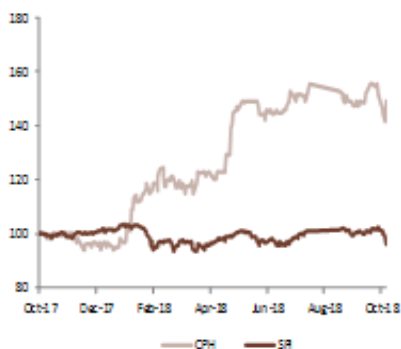
15 October 2018

Company Data

Price:	CHF 85.00
Market Cap:	CHF 510.0mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	990
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%	6.3%	5.0%
Basic EPS	(1.32)	2.66	5.45	4.22
Diluted EPS	(1.32)	2.66	5.45	4.22
DPS	0.65	0.65	2.72	2.11
Equity Ratio %	56.2%	56.4%	49.3%	59.2%
Capex	(1.5)	(19.3)	(19.7)	(21.4)
P/Sales	1.2x	1.1x	1.0x	1.0x
P/E	NM	31.9x	15.6x	20.1x
EV/EBITDA	15.9x	17.4x	7.7x	8.8x

Source: Research Dynamics, Company data

Next Events

Annual Results 2018	26 Feb 2019
47 th Ordinary general meeting	19 Mar 2019

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Growth momentum continues

After an impressive 1H2018 (top line +14.0% y/y to CHF 264.1 mn; net profit at CHF 22.6 mn against a net loss of CHF 2.2 mn in 1H2017), CPH continues to enjoy positive momentum in the second half of the year. According to the company, 3Q2018 operating profit improved further with revenue growing at a similar pace as during 1H2018. Sales benefited from steady paper prices, but currency headwinds negatively impacted the top line.

FY2018 guidance is in line with our estimates

Assuming a stable macroeconomic environment and benign currencies in 4Q2018, the group expects to deliver net sales growth for the full year 2018, with the growth rate being only slightly below that achieved in 1H2018. The EBIT margin guidance is for the range of 9-11% and net profit is guided to more than double for full year 2018 compared to 2017 levels (excluding any extraordinary items). Management continues to expect the newly acquired businesses of Armar and Yusheng in the Chemistry division, APS (former Papierfabrik Utzenstorf) in the Paper and Sekoya in the Packaging division to have a positive impact on overall group sales volumes. The guidance provided by the company is in line with our previous estimates for FY2018. Consequently, our P&L forecasts for FY 2018 and beyond remain unchanged.

Public bond issue increased to CHF 100mn from CHF 85mn

On 14 September, CPH announced that it has issued at-par corporate bonds worth CHF 85 mn with a maturity of 5 years and an annual coupon rate of 2.0%. On 8 October, the company increased the total amount of the bond issuance to CHF 100 mn in response to high investor demand.

The proceeds from this additional issue will be used to refinance the group's 2014 bonds of CHF 120 mn with a coupon of 2.75% due to be redeemed on 10 July 2019. Through this bond issuance, CPH has ensured a timely refinancing of the previously issued bonds at a lower coupon rate. The company is also paring its debt burden by repaying a portion of the original bonds using its own funds.

Lower-cost refinancing of debt coupled with a repayment of CHF 20 mn is collectively expected to result in a savings of ~CHF 1.0 mn in net annual interest cost, assuming an effective tax rate of 20%. The company should realise the full benefits of these savings from FY2020 onwards, given that the debt matures only in July 2019.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our assumptions in the DCF valuation remain unchanged (market risk premium of 8.2%, beta of 0.9 and risk-free rate of 0.5%). Our intrinsic value of CHF 101.2 per share remains unchanged as well, implying an upside of 19.1% from current levels.

CPH currently trades at a P/S multiple of 1.0x (FY2018E), a significant 42% discount over the weighted average of division peers.

In the medium-term, we expect this discount to narrow and the stock to witness a revaluation, considering strong growth prospects in key markets, improved operating efficiencies from the new production facilities and expansion of its Packaging and Chemistry divisions. The Paper division should benefit from its local market leadership, advanced technology and continued operational improvements, although the business environment with overcapacities and decreasing demand for newsprint paper remains challenging.

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	7.6x	7.8x	0.6x	1.0x	0.9x	24.6x	14.2x	16.1x
Paper peers:									
Holmen	8.4x	11.8x	11.4x	0.8x	2.22	2.1x	16.5x	17.9x	18.3x
Sora Enso	7.3x	7.3x	7.2x	1.4x	1.08	1.1x	10.1x	11.4x	11.2x
Atri	12.4x	6.8x	6.6x	1.2x	2.06	2.0x	19.1x	9.2x	8.9x
Mesa Board	8.9x	8.9x	8.1x	1.2x	1.33	1.3x	13.3x	14.1x	12.2x
URW-Kymmene	11.7x	8.4x	8.6x	0.0x	1.52	1.5x	2.8x	13.2x	13.3x
Norise Scogindustries	15.4x	NA	NA	1.2x	NA	NA	31.4x	NA	NA
James Cropper	10.6x	0.2x	0.1x	0.4x	0.01	0.0x	17.8x	34.7x	26.0x
CIH Holdings	NA	1136.4x	1044.8x	NA	0.52	0.5x	11.6x	13.4x	13.0x
Chemistry peers:									
Honeywell Int.	12.0x	13.4x	12.6x	1.4x	2.7x	2.7x	14.2x	19.2x	18.0x
Clariant	10.4x	NA	NA	0.6x	NA	NA	11.1x	NA	NA
Akema	6.9x	6.1x	5.9x	0.7x	0.9x	0.8x	9.8x	10.8x	10.6x
WR Grace & Co.	17.7x	11.2x	10.2x	1.7x	2.3x	2.2x	15.9x	16.5x	14.8x
Packaging peers:									
Meadwestvaco	6.0x	0.1x	0.1x	0.7x	NA	NA	13.7x	NA	NA
MacFarlane Group	5.8x	10.4x	10.1x	0.2x	0.0x	0.0x	7.7x	13.6x	12.8x
Gerresheimer	7.0x	23.4x	20.2x	1.0x	1.4x	1.3x	14.2x	13.8x	15.5x
West Pharmaceutical Services	9.9x	4.7x	4.4x	1.7x	4.9x	4.6x	20.1x	41.4x	35.5x
Convidora Industrial	8.4x	4.6x	4.3x	0.4x	0.2x	0.2x	NA	NA	NA
PSB Industries	4.6x	4.9x	4.5x	0.4x	0.5x	0.5x	8.1x	5.4x	10.8x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	9.4x	NA	NA
Bicare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	8.4x	7.8x	7.6x	0.7x	1.3x	1.3x	13.3x	13.7x	13.1x
High	17.7x	1136.4x	1044.8x	1.7x	4.9x	4.6x	31.4x	41.4x	35.5x
Low	3.3x	0.1x	0.1x	0.0x	0.0x	0.0x	2.7x	5.4x	8.9x
Premium (disc) to peers	11%	(39%)	3%	(21%)	(27%)	(26%)	NA	4%	23%

Source: Thomson Reuters Eikon (as on 15th October 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	9.7x	9.0x	8.3x	0.9x	1.7x	1.6x	12.1x	15.3x	14.4x
CPH	9.4x	7.6x	7.8x	0.6x	1.0x	0.9x	24.6x	14.2x	16.1x
Premium (disc) to peers	(3%)	(16%)	(5%)	(37%)	(42%)	(41%)	NM	(7%)	12%

Source: Thomson Reuters Eikon (as on 15th October 2018)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
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)	(7)	(6)
Finance income	1	2	1	1	2	0	0
Total financial income (expenses)	(4)	(6)	(12)	(5)	(7)	(7)	(6)
Profit before taxes (before exceptional items)	(281)	10	(34)	1	(4)	38	31
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	33	26
Basic EPS	(45.2)	1.8	(5.5)	(1.3)	2.7	5.5	4.3
Diluted EPS	(45.2)	1.8	(5.5)	(1.3)	2.7	5.5	4.3
DPS	0.7	0.7	0.6	0.7	0.7	2.7	2.1

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	187.9	99.7
Total assets	681.8	688.4	624.0	672.4	697.6	811.2	712.6
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	365.3
Net result for the year	(271.5)	10.5	(33.1)	(7.9)	16.0	32.7	25.3
Non-current liabilities							
Long-term financial liabilities	117.9	128.0	126.5	145.6	143.5	240.6	112.9
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	12.7	20.4
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	407.7	287.6
Total equity and liab.	681.8	688.4	624.0	672.4	697.6	811.2	712.6

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	32.7	25.3
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	52.3	57.1
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	-	-	-	-	-	-	-
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	2.9	7.7
Increase/ (Decrease) in long-term financial liabilities	(10.8)	9.8	(1.1)	19.0	(0.6)	97.1	(127.7)
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)	96.1	(123.9)
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	107.7	(88.2)
Opening cash balance	64.7	63.9	69.9	53.1	70.3	80.1	187.9
Closing cash balance	63.9	69.9	53.1	70.3	80.1	187.9	99.7

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	104%	(22%)
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%	6%	5%
Return Ratios							
Profit Margin	(56%)	2%	(8%)	(2%)	3%	6%	5%
Asset Turnover	0.6x	0.7x	0.6x	0.7x	0.7x	0.7x	0.7x
Financial Leverage	1.4x	1.6x	1.6x	1.7x	1.8x	1.9x	1.8x
Dupont ROE (%)	(47%)	2%	(8%)	(2%)	4%	8%	6%
ROCE (%)	(5%)	3%	(4%)	1%	1%	7%	7%
ROA (%)	(33%)	2%	(5%)	(1%)	2%	4%	3%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.3x	0.3x	0.4x	0.4x	0.6x	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	6.0x	5.8x
Liquidity Ratios							
Current Ratio	2.0x	2.5x	2.6x	2.4x	2.3x	3.2x	2.2x
Quick Ratio	1.5x	1.8x	1.9x	1.7x	1.7x	2.6x	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	31.9x	15.6x	20.1x
P/BV	0.8x	0.5x	0.6x	1.3x	1.3x	1.3x	1.2x

Source: Research Dynamics, Bloomberg, Company data

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