

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Investor day update

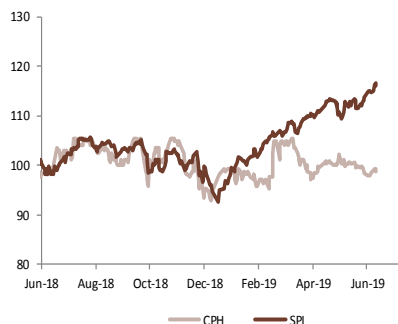
21 June 2019

Company Data

Price:	CHF 83.0
Market Cap:	CHF 498.0mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (30 days):	753
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



*Rebased to 100
Source: Bloomberg

Key Financial Data

	2017	2018	2019E	2020E
Sales	469.8	533.5	540.7	554.9
EBITDA %	7.2%	15.6%	15.1%	13.9%
EBIT %	0.6%	9.7%	9.1%	8.4%
Net Margin %	3.4%	7.9%	7.2%	6.9%
Basic EPS	2.66	7.05	6.51	6.38
Diluted EPS	2.66	7.05	6.51	6.38
DPS	0.65	1.80	1.63	1.60
Equity Ratio %	56.4%	50.7%	61.3%	62.7%
Capex	(19.3)	(18.2)	(32.8)	(33.7)
P/Sales	1.1x	1.0x	1.0x	0.9x
P/E	32.3x	12.2x	13.2x	13.5x
EV/EBITDA	17.5x	7.1x	7.3x	7.7x

Next Events

1H 2019 results	19 Jul 2019
Investora Zurich	19 Sep 2019
ZKB Equity Conference	06 Nov 2019

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Diversification: Key to profitable growth

The overarching theme of diversification continues to be the focus of the group to grow further. The Investor Day presentation at CPH's Chemistry division in Rüti, Switzerland, highlighted CPH's successful journey towards becoming a geographically diversified group from a Swiss-based paper manufacturer. This is evident from the fact that Chemistry and Packaging together comprised 44% of 2018 total sales (2013: 36%). Similarly, CPH continues to diversify its geographical footprints, improving its presence in non-European countries (22% in 2018 vs. 16% in 2013). This complements the group's strategy of maintaining cost leadership through diversifying its production base away from the Swiss Franc which will act as a natural hedge (proportion of total costs in CHF: 40% in 2018 vs. 70% in 2013).

Chemistry division: Innovation and integration

Revenue from the Chemistry division – which was the focus of the Investor Day presentation and facility tour – has grown at a CAGR of 6.5% during 2013-2018, contributing 15% of total sales in 2018 (2013: 12%). Even more impressive was the turnaround in profitability as it achieved EBIT margin of 7.7% in 2018 from a negative of 8.9% in 2013. The growth in the Chemistry division reflected the strategic, organisational and operational turnaround, together with a conducive economic environment and an increase in the demand for molecular sieves particularly from purifying industries and pure medical oxygen.

The Chemistry division over the past five years has thus consequently and successfully pursued its strategic repositioning, which included the transfer of production from the historic Uetikon site and closure thereof. A first building block in this was the acquisition and integration of ALSIO in China in 2015-16 in order to move and expand the molecular sieves business and gain increased access to Asian markets. In this connection, another important step was the build-up of the Zeochem distribution centre in Shanghai. Furthermore, Zeochem in the fall of 2016 acquired industrial land in Zvornik, Bosnia and Herzegovina, where it built up a plant and to where it moved part of the production facilities from the Uetikon site. This allowed the Chemistry division to expand the reach of its products such as chromatography gel, zeolite powder and specialty zeolite businesses as well as to geographically diversify its footprint. In addition, according to the company, the capacity at the Louisville plant in the US has also been expanded with the commissioning of new installations in 2017 in order to meet the increasing demand for lithium products. As a further part of the strategic repositioning, the Chemistry division in the summer of 2018 also transferred its global head office and deuterated products manufacturing from the Uetikon site to Rüti with increased capacity. Moreover, the division simplified the organizational structure in Switzerland through the merger of smaller subsidiaries previously domiciled in Uetikon into one consolidated company Zeochem AG. The company also integrated the business activities of Armar, its long-term and established business partner acquired in November 2017, to strengthen the division's deuterated products segment further and grow its high margin businesses.

Deuterated products, part of the Specialties segment under the Chemistry division, cater to a niche segment with application in high potential markets such as NMR (laboratory) analysis, electronics (OLEDs) and the pharmaceuticals (active pharmaceutical ingredients, APIs) segment. The production of deuterated products at the Rüti site has already begun in the last quarter of 2018 and should have a positive impact on 1H2019 figures.

With all the strategic initiatives and steps taken to expand capacity and streamline the distribution and supply chain, together with the healthy growth of the underlying sub-sectors, we believe that CPH's Chemistry division should witness healthy growth in the coming years.

Valuation:

CPH continues to focus on its strategy to diversify its geographical revenue base, to reduce its vulnerability related to currency volatility, lower its dependency on the Paper division and invest in the faster growing Packaging and Chemistry divisions. Based on the successful execution of its strategic initiatives so far, we believe the Group is on track to meet its objectives in the mid-to-long term. Even though the contribution of the Paper division to total revenues has remained high, the company managed to grow its market share in the domestic and European markets. Our DCF based target price of CHF 100.7 per share (unchanged), implies an upside of 21.3% from the current level. We have not made any changes in our estimates currently, as we await the release of 1H19 results on 19 July 2019.

Exhibit 1: Sensitivity of upside

		Sensitivity Table				
		WACC				
		3.2%	4.2%	4.9%	6.2%	7.2%
Terminal growth rate	0.25%	137	102	86	68	58
	0.50%	148	108	91	70	59
	0.75%	162	115	95	72	61
	1.00%	179	123	100	75	63
	1.25%	200	132	106	78	65
	1.50%	227	143	113	82	68
	1.75%	264	156	121	86	70

Source: Company data, Research Dynamics

Exhibit 2: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
CPH Chemie & Paper	9.4x	8.0x	8.0x	0.6x	0.9x	0.9x	24.6x	12.3x	12.5x
Paper peers:									
Holmen	8.0x	10.6x	10.2x	0.9x	2.0x	1.9x	14.2x	17.1x	16.3x
Stora Enso	7.3x	6.3x	6.3x	1.6x	0.8x	0.8x	10.6x	8.9x	8.8x
Altri	12.5x	5.6x	5.0x	1.2x	1.5x	1.4x	17.2x	8.1x	7.0x
Metsa Board	8.8x	5.9x	6.0x	1.3x	0.8x	0.8x	13.2x	8.6x	8.2x
UPM-Kymmene	9.0x	6.7x	6.8x	0.0x	1.2x	1.2x	2.8x	11.0x	11.2x
Norsk Scogindustrier	16.3x	NA	NA	1.3x	NA	NA	31.8x	NA	NA
James Cropper	9.3x	NA	NA	0.5x	0.0x	0.0x	15.3x	21.1x	16.3x
OJI Holdings	NA	828.1x	787.4x	NA	0.4x	0.4x	11.6x	10.5x	8.6x
Chemistry peers:									
Honeywell Int.	12.7x	15.2x	14.2x	2.5x	3.4x	3.3x	33.3x	21.7x	19.8x
Clariant	10.5x	NA	NA	1.1x	NA	NA	27.6x	NA	NA
Arkema	6.5x	5.1x	4.8x	0.9x	0.7x	0.7x	14.3x	9.6x	9.0x
WR Grace & Co.	16.2x	11.2x	10.4x	2.8x	2.4x	2.3x	36.7x	16.1x	14.4x
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	15.9x	12.4x	11.8x
Gerresheimer	7.0x	9.1x	9.6x	1.0x	1.4x	1.4x	30.8x	17.1x	15.4x
West Pharmaceutical Services	9.9x	23.2x	20.5x	1.7x	5.0x	4.6x	41.0x	42.3x	36.7x
Convertidora Industrial	8.4x	3.3x	3.0x	0.4x	0.2x	0.2x	32.2x	NA	NA
PSB Industries	4.6x	3.6x	3.4x	0.4x	0.4x	0.4x	24.1x	15.5x	13.9x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	7.9x	NA	NA
Bikare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	8.4x	6.5x	6.5x	0.9x	0.8x	0.8x	15.6x	13.9x	12.9x
High	16.3x	828.1x	787.4x	2.8x	5.0x	4.6x	41.0x	42.3x	36.7x
Low	3.3x	0.1x	0.1x	0.0x	0.0x	0.0x	2.7x	8.1x	7.0x
Premium (disc) to peers	11%	23%	23%	(39%)	9%	8%	NA	(12%)	(3%)

Source: Bloomberg (as on 20 June 2019)

Exhibit 3: CPH – Comparison with weighted average of division peers

	EV/EBITDA			P/S			P/E		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
Weighted peer multiples	9.6x	8.4x	7.9x	1.3x	1.6x	1.5x	24.9x	15.3x	13.6x
CPH	9.4x	8.0x	8.0x	0.6x	0.9x	0.9x	24.6x	12.3x	12.5x
Premium (disc) to peers	(3%)	(5%)	2%	(58%)	(43%)	(42%)	NM	(20%)	(8%)

Source: Bloomberg (as on 20 June 2019)

DETAILED FINANCIAL STATEMENTS

Income statement

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Chemistry sales	60	63	69	75	79	83	88
Paper sales	314	248	246	264	301	295	292
Packaging sales	118	110	119	130	153	162	175
Net Sales	492	420	435	470	534	541	555
Cost of Sales	(313)	(285)	(267)	(309)	(311)	(322)	(330)
Gross profit	180	135	168	161	222	219	225
Personnel cost	(88)	(86)	(89)	(84)	(92)	(92)	(101)
Outsourced maintenance/repairs	(18)	(16)	(18)	(17)	(19)	(17)	(18)
Other operating expense	(23)	(21)	(25)	(26)	(28)	(28)	(29)
Total operating costs	(129)	(123)	(131)	(127)	(139)	(137)	(148)
EBITDA	51	12	37	34	83	82	77
Depreciation on tangible fixed assets	(34)	(34)	(31)	(30)	(30)	(31)	(30)
Depreciation on intangible assets	(1)	(0)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	16	(22)	6	3	52	49	47
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	16	(22)	6	3	52	49	47
Finance costs	(7)	(13)	(6)	(8)	(7)	(6)	(4)
Finance income	2	1	1	2	1	0	0
Total financial income (expenses)	(6)	(12)	(5)	(7)	(6)	(6)	(4)
Profit before taxes (before exceptional items)	10	(34)	1	(4)	46	43	43
Non-operating items	1	2	(4)	23	0	0	0
Income taxes	(1)	(1)	(4)	(3)	(3)	(4)	(4)
Profit attributable to the parent	11	(33)	(8)	16	42	39	38
Basic EPS	1.8	(5.5)	(1.3)	2.7	7.1	6.5	6.4
Diluted EPS	1.8	(5.5)	(1.3)	2.7	7.1	6.5	6.4
DPS	0.7	0.6	0.7	0.7	1.8	1.6	1.6

Source: Company data, Research Dynamics

Balance sheet

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Assets							
Non-current assets							
PPE	419.1	404.3	384.6	384.1	376.1	375.1	375.1
Intangible assets	1.3	2.4	3.1	4.8	5.8	7.4	10.6
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	22.7	20.2	52.6	56.4	55.3	55.3	55.3
Total Non-Current Assets	456.0	436.9	450.3	455.3	447.2	447.8	450.9
Current assets							
Inventories	63.4	54.5	68.9	59.2	69.6	62.0	62.1
Trade accounts receivable	79.5	66.4	69.1	77.8	72.1	75.9	77.9
Other receivables	7.7	8.0	8.9	18.0	13.1	13.1	13.1
Prepaid expenses and accrued income	6.6	4.9	4.8	7.0	9.2	9.2	9.2
Short-term financial receivables	0.1	0.0	0.1	0.0	100.3	0.0	0.0
Liquid funds and Securities	75.1	53.2	70.4	80.2	89.0	99.6	124.8
Total assets	688.4	624.0	672.4	697.6	800.5	707.5	738.0
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	12.0	12.0	12.0
Capital reserves	12.3	8.4	4.8	0.8	15.0	15.0	15.0
Profit reserves	389.2	397.4	351.2	346.4	336.2	367.7	397.2
Net result for the year	10.5	(33.1)	(7.9)	16.0	42.3	39.0	38.3
Non-current liabilities							
Long-term financial liabilities	128.0	126.5	145.6	143.5	120.5	106.9	106.9
Pension scheme liabilities	0.6	1.0	1.1	0.6	1.3	1.3	1.3
Other long-term liabilities	2.4	2.3	0.1	0.0	0.8	0.8	0.8
Long-term provisions	20.8	20.0	52.5	51.8	50.0	50.0	50.0
Current liabilities							
Trade accounts payable	53.8	46.7	53.1	69.5	69.7	68.5	70.3
Other payables	3.9	2.6	8.3	3.3	4.1	4.1	4.1
Accrued liabilities and deferred income	9.1	13.6	16.5	17.2	20.0	20.0	20.0
Short-term financial liabilities	22.6	6.8	7.0	9.8	125.8	19.3	19.3
Short-term provisions	5.1	1.5	7.6	5.6	1.2	1.2	1.2
Total liabilities	246.4	221.2	291.6	301.3	393.3	272.1	273.9
Total equity and liab.	688.4	624.0	672.4	697.6	800.5	707.5	738.0

Source: Company data, Research Dynamics

Cash flow statement

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net profit for the period	10.5	(33.1)	(7.7)	16.2	42.3	39.0	38.3
Non-cash adjustments:	30.3	35.3	33.9	(1.5)	26.3	32.2	30.6
Change in CA and CL:							
(Increase)/ decrease in inventories	(5.5)	8.4	(13.1)	13.6	(8.6)	7.7	(0.1)
Decrease in trade accounts receivable	(11.2)	8.1	(0.5)	(7.7)	5.0	(3.9)	(2.0)
Increase/ (decrease) in trade accounts payable	(5.8)	(6.8)	1.6	15.8	(1.1)	(1.2)	1.8
Other changes in working capital	1.5	11.5	7.7	(4.2)	0.4	-	-
Cash flows from operating activities	19.8	23.3	21.9	32.2	64.3	73.8	68.6
Investments in tangible fixed assets	(19.2)	(21.9)	(20.7)	(32.3)	(22.3)	(29.9)	(30.0)
Disposals of tangible fixed assets	0.4	1.6	20.5	15.4	6.3	-	-
Investments in intangible assets	(0.6)	(1.6)	(1.2)	(2.4)	(2.2)	(2.9)	(3.7)
Investments in business activities	-	-	(18.5)	-	(27.9)	-	-
Repayment of long-term financial receivables	-	-	-	-	-	-	-
Cash flow generated (used) in investment activities	(19.4)	(22.0)	(19.9)	(19.3)	(46.0)	(32.8)	(33.7)
Increase/ (Decrease) in short-term financial liabilities and receivables	(0.4)	(15.3)	0.1	1.0	(4.3)	(6.1)	-
Increase/ (Decrease) in long-term financial liabilities	9.8	(1.1)	19.0	(0.6)	(3.0)	(13.5)	-
Increase in other long-term liabilities	(0.2)	(0.1)	(0.4)	0.2	2.1	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)	(10.8)	(9.6)
Cash flow generated (used) in financing	5.3	(20.4)	15.2	(3.3)	(9.1)	(30.5)	(9.6)
Exchange (losses)/gains	0.2	2.3	0.1	0.2	(0.3)	-	-
Net change in cash	6.0	(16.7)	17.2	9.8	8.9	10.5	25.3
Opening cash balance	63.9	69.9	53.1	70.3	80.1	89.0	99.6
Closing cash balance	69.9	53.1	70.3	80.1	89.0	99.6	124.8

Source: Company data, Research Dynamics

Key ratios

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Growth Ratios							
Sales Growth	2%	(15%)	4%	8%	14%	1%	3%
Chemistry division	2%	4%	11%	9%	5%	5%	5%
Paper division	3%	(21%)	(1%)	7%	14%	(2%)	(1%)
Packaging division	1%	(7%)	9%	9%	17%	6%	8%
Operating Profit Growth	NM	NM	NM	(51%)	NM	(4%)	(6%)
Net Income Growth	NM	NM	NM	NM	165%	(8%)	(2%)
Profitability Ratios (%)							
Operating margin (before impairment) (%)	3%	(5%)	1%	1%	10%	9%	8%
Chemistry division	(4%)	(3%)	2%	5%	8%	8%	8%
Paper division	4%	(11%)	(2%)	(5%)	10%	9%	8%
Packaging division	4%	5%	8%	7%	10%	10%	10%
EBITDA Margin %	10%	3%	8%	7%	16%	15%	14%
Net Margin (%)	2%	(8%)	(2%)	3%	8%	7%	7%
Return Ratios							
Profit Margin	2%	(8%)	(2%)	3%	8%	7%	7%
Asset Turnover	0.7x	0.6x	0.7x	0.7x	0.7x	0.7x	0.8x
Financial Leverage	1.6x	1.6x	1.7x	1.8x	1.9x	1.8x	1.6x
Dupont ROE (%)	2%	(8%)	(2%)	4%	11%	9%	9%
ROCE (%)	3%	(4%)	1%	1%	10%	9%	8%
ROA (%)	2%	(5%)	(1%)	2%	6%	5%	5%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.3x	0.4x	0.4x	0.6x	0.3x	0.3x
Net Debt - Equity Ratio	0.2x	0.2x	0.2x	0.2x	0.4x	0.1x	0.0x
Interest Coverage	5.2x	(5.5x)	1.4x	0.7x	11.8x	8.1x	11.2x
Liquidity Ratios							
Current Ratio	2.5x	2.6x	2.4x	2.3x	1.6x	2.3x	2.5x
Quick Ratio	1.8x	1.9x	1.7x	1.7x	1.3x	1.7x	2.0x
Valuation Ratios							
EV/EBITDA	6.2x	25.8x	16.0x	17.5x	7.1x	7.3x	7.7x
P/E	22.9x	NM	NM	32.3x	12.2x	13.2x	13.5x

Source: Company data, Research Dynamics

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