

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

1H 2019 earnings update

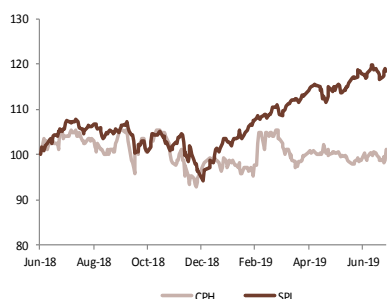
22 July 2019

Company Data

Price:	CHF 85.0
Market Cap:	CHF 510.0mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	648
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2017	2018	2019E	2020E
Sales	469.8	533.5	540.7	554.9
EBITDA %	7.2%	15.6%	15.4%	14.2%
EBIT %	0.6%	9.7%	9.5%	8.5%
Net Margin %	3.4%	7.9%	8.0%	7.3%
Basic EPS	2.66	7.05	7.20	6.76
Diluted EPS	2.66	7.05	7.20	6.76
DPS	0.65	1.80	1.80	1.69
Equity Ratio %	56.4%	50.7%	61.9%	63.6%
Capex	(19.3)	(18.2)	(32.8)	(33.4)
P/Sales	1.1x	0.9x	0.9x	0.9x
P/E	31.0x	11.7x	11.5x	12.2x
EV/EBITDA	19.5x	7.9x	7.9x	8.3x

Source: Research Dynamics, Company data

Next Events

Investora Conference in Zurich	19 Sep 2019
Annual results	25 Feb 2020

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Execution on track despite macroeconomic challenges

Healthy 1H2019 results, with all time high EBIT margins

CPH reported an encouraging set of numbers across segments with top line increasing by 1.3% YoY to CHF 267.5mn (2.1% YoY ex-currency), despite challenging economic conditions including the US and China trade war, and uncertainties related to Brexit. The overall growth reflected higher capacity utilisation and sales price increase with largely stable cost (fixed and variable) across divisions. Group EBIT improved significantly to CHF 32.0mn from CHF 27.8mn in 1H/18, posting highest ever EBIT margin of 12.0%, since CPH's listing in 2011, compared to 10.5% in the same period last year. The net profit reported at CHF 27.2mn increased by 20.1% YoY (CHF 22.6mn in 1H/18) with corresponding margin improving by 160bps to 10.2%. Although, all divisions reported positive EBIT for the period, Paper division in particular led the increase in group EBIT, as favourable supply-demand situation allowed further price increase. The Paper division reported EBIT of CHF 19.0mn, significantly higher compared to CHF 14.8mn in 1H2018, and corresponding margin improved to 12.9% from 10.0% during the same period last year.

Segmental performance

Paper: The Paper Division reported a slight decline in sales, which dropped 0.8% YoY (-0.6% YoY ex-currency) to CHF 146.9mn. The primary reason for the decline at the top line is the continued structural erosion in the demand for such paper products. Various paper manufacturers have cut their production of magazine paper totalling to 750k tonnes, which should have a positive impact on the prices going forward. According to the company, supply-demand for newsprint and magazine paper was virtually similar at the beginning of the year, which allowed the company to increase some paper prices in early 2019. The divisional EBIT increased significantly by 28.0% YoY to CHF 19.0mn from CHF 14.8mn in 1H/18 and the corresponding margin improved to 12.9% (1H/18:10.0%). The improvement in EBIT margin reflects improved productivity and reduction in cost due to 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: Despite the weak growth in pharmaceuticals in the first half of the fiscal, the net sales at the Packaging Division increased by 2.8% YoY (5.9% YoY ex-currency) to a record high of CHF 80.8mn from CHF 78.7mn. Although, the overall packaging market was down during the first half of 2019 but the company's strategic initiatives are starting to bear fruits, e.g., the Suzhou plant has obtained the product licences from the local Chinese regulators. In addition, the new finishing and logistics centre in Brazil is operational since last autumn. Divisional EBIT improved to CHF 10.1mn from CHF 9.6 and corresponding EBIT margin also improved slightly by 20bps to 12.4%. Despite the increased raw material cost, EBIT margin improved due to better product mix of high-value products.

Chemistry: The Chemistry Division reported an increase of 6.3% YoY (4.9% YoY ex-currency) in net sales to CHF 39.7mn in 1H/19. The increase in top line was driven by better utilization of manufacturing facilities along with higher demand for molecular sieves. In addition, the company completed its repositioning of the Chemistry Division and also expanded its marketing and distribution network in Brazil, Bahrain and Czech Republic. The segment reported 10.5% decrease in EBIT to CHF 3.1mn with the corresponding margin narrowed to 7.8% from 9.2% in 1H/18 due to higher other operating income during 1H/18.

Full-year guidance maintained

In spite of decent performance during the first half, management is skeptical about full year 2019 due to various macroeconomic uncertainties. The Group expects slowdown in global economic activities for the fiscal 2019 and reaffirms its guidance issued at the beginning of the year. The guidance provided assumes broadly stable currency rates during 2H/19. The group expects to report full-year net sales, EBIT margin and net profit results for 2019 at around prior-year levels.

Paper: The company expects additional pressure on paper prices as the demand for newspaper and magazine paper is expected to decline further during the second half of the year due to existing overcapacities in the market. Management expects net sales and EBIT margin to remain in-line with the previous year and is keen to keep up the efforts to enhance efficiency and reduce costs further.

Packaging: The current trade war between the US and China along with other economic challenges increases the uncertainty in the business environment and its impact on the pharma markets. The company expects to report a slight increase or similar level of net sales as well as EBIT margin for the full year as compared to the previous year.

Chemistry: Although the current business environment is challenging, management expects stable utilization of production facilities based on healthy order book. The company expects net sales and EBIT margin at similar levels compared to 2018.

Estimate change

The reported result is encouraging given the global business uncertainty. For the second half of the year, the company expects a slowdown compared to 1H/19. We have increased our estimates slightly based on the first half results. Although, we have kept our revenue estimates unchanged, considering improved cost structure at the Paper Division and high end product mix at the Chemistry and Packaging Division along with one time other operating income, we have raised our EBIDTA estimates to CHF 83.5mn from CHF 81.5mn (earlier estimates). Consequently, the net earnings is expected to be around CHF 43.2mn compared to CHF 39.0mn estimated previously.

Refinancing to reduce financial burden

On 10th July 2019, the company repaid its CHF 120mn bond with 2.75% coupon. The repayment was done by new bond issue along with cash at hand. On 8th Oct 2018, the company issued at par corporate bonds worth CHF 100mn with a maturity of 5 years with an annual coupon rate of 2.0% to repay the aforementioned bond. Due to the repayment of the CHF 120mn bond, total debt decreased by CHF 20mn and total balance sheet by CHF 120mn. In addition, the equity ratio increased towards ~60% due to reduction in debt (total assets). Further, to increase credit flexibility, the company arranged a new additional line of credit with Swiss banks of CHF 40mn.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 102.7 per share is marginally higher to our previous target price (CHF 100.6), implying an upside of 20.8% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare each of CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S and P/E – to analyse the relative valuation of the Group. CPH currently trades at a P/S multiple of 0.9x (FY2019E), a significant 44% discount to the weighted average multiple of division's peers.

In the medium-term, we expect this discount to narrow and the stock to witness a re-rating, 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 the consolidation and production cut coupled with cost saving initiatives, advanced technology and continued operational improvements. Nevertheless, the business environment with decreasing demand for newsprint paper remains challenging. However, continuing effort to diversify the company itself from a paper manufacturer to a conglomerate should stabilize the revenue stream going forward.

Exhibit 1: 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	9.5x	7.8x	7.2x	0.8x	0.9x	0.9x	17.0x	12.5x	13.1x
Paper peers:									
Holmen	NA	11.2x	10.8x	NA	2.0x	2.0x	NA	18.3x	17.4x
Stora Enso	8.0x	7.4x	7.3x	0.9x	0.8x	0.8x	14.2x	9.5x	9.3x
Altri	7.3x	5.9x	4.9x	1.7x	1.5x	1.4x	10.6x	8.1x	6.4x
Metsa Board	12.5x	6.2x	6.2x	1.2x	0.9x	0.8x	17.1x	9.1x	8.5x
UPM-Kymmene	8.8x	6.4x	6.5x	1.3x	1.1x	1.1x	13.2x	10.6x	10.9x
Norsk Skogindustrier	8.4x	NA	NA	0.0x	NA	NA	2.8x	NA	NA
James Cropper	16.4x	NA	NA	1.4x	0.0x	0.0x	32.1x	28.4x	20.7x
OJI Holdings	9.2x	827.4x	779.1x	0.5x	0.4x	0.4x	15.3x	9.9x	8.1x
Chemistry peers:									
Honeywell Int.	12.8x	14.9x	13.9x	2.5x	3.4x	3.2x	20.6x	21.3x	19.5x
Clariant	10.5x	NA	NA	1.1x	NA	NA	27.4x	NA	NA
Arkema	6.5x	5.1x	4.9x	0.9x	0.7x	0.7x	14.1x	9.8x	9.3x
WR Grace & Co.	16.1x	11.6x	10.7x	2.8x	2.5x	2.4x	36.4x	16.7x	15.0x
Packaging peers:									
Meadwestvaco	6.0x	NA	NA	0.7x	NA	NA	13.7x	NA	NA
MacFarlane Group	10.7x	0.1x	0.1x	0.6x	0.0x	0.0x	16.0x	11.9x	11.3x
Gerresheimer	9.8x	9.4x	10.2x	1.6x	1.6x	1.5x	31.0x	18.6x	16.8x
West Pharmaceutical Services	21.9x	23.1x	20.4x	4.5x	4.9x	4.6x	40.3x	42.0x	36.5x
Conveitidora Industrial	5.9x	3.3x	3.0x	0.3x	0.2x	0.2x	32.2x	NA	NA
PSB Industries	5.5x	3.5x	3.3x	0.4x	0.4x	0.4x	24.5x	15.5x	14.1x
Astrapak Ltd	NA	NA	NA	0.3x	NA	NA	7.9x	NA	NA
Bikcare Ltd	16.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	9.5x	6.9x	6.9x	0.9x	0.9x	0.8x	16.0x	13.7x	12.7x
High	21.9x	827.4x	779.1x	4.5x	4.9x	4.6x	40.3x	42.0x	36.5x
Low	5.5x	0.1x	0.1x	0.0x	0.0x	0.0x	2.7x	8.1x	6.4x
Premium (disc) to peers	1%	12%	4%	(14%)	9%	8%	NA	(8%)	3%

Source: Thomson Eikon (as on 19 July 2019)

Exhibit 2: 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	10.7x	8.6x	8.1x	1.4x	1.7x	1.6x	21.4x	15.7x	14.2x
CPH	9.5x	7.8x	7.2x	0.8x	0.9x	0.9x	17.0x	12.5x	13.1x
Premium (disc) to peers	(11%)	(10%)	(11%)	(41%)	(44%)	(43%)	NM	(20%)	(8%)

Source: Thomson Eikon (as on 19 July 2019)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	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)	(318)	(331)
Gross profit	180	135	168	161	222	222	224
Personnel cost	(88)	(86)	(89)	(84)	(92)	(94)	(100)
Outsourced maintenance/repairs	(18)	(16)	(18)	(17)	(19)	(17)	(17)
Other operating expense	(23)	(21)	(25)	(26)	(28)	(28)	(29)
Total operating costs	(129)	(123)	(131)	(127)	(139)	(139)	(145)
EBITDA	51	12	37	34	83	83	79
Depreciation	(34)	(34)	(31)	(30)	(30)	(31)	(30)
Amortization	(1)	(0)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	16	(22)	6	3	52	51	47
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	16	(22)	6	3	52	51	47
Finance costs	(7)	(13)	(6)	(8)	(7)	(5)	(2)
Finance income	2	1	1	2	1	0	0
Total financial income (expenses)	(6)	(12)	(5)	(7)	(6)	(5)	(2)
Profit before taxes (before exceptional items)	10	(34)	1	(4)	46	46	45
Non-operating items	1	2	(4)	23	0	1	0
Income taxes	(1)	(1)	(4)	(3)	(3)	(3)	(5)
Profit attributable to the parent	11	(33)	(8)	16	42	43	41
Basic EPS	1.8	(5.5)	(1.3)	2.7	7.1	7.2	6.8
Diluted EPS	1.8	(5.5)	(1.3)	2.7	7.1	7.2	6.8
DPS	0.7	0.6	0.7	0.7	1.8	1.8	1.7

Source: Research Dynamics, Company data

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	377.0
Intangible assets	1.3	2.4	3.1	4.8	5.8	7.4	7.4
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	449.7
Current assets							
Inventories	63.4	54.5	68.9	59.2	69.6	72.2	72.3
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	88.9	113.9
Total assets	688.4	624.0	672.4	697.6	800.5	707.1	736.1
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	400.7
Net result for the year	10.5	(33.1)	(7.9)	16.0	42.3	43.2	40.5
Non-current liabilities							
Long-term financial liabilities	128.0	126.5	145.6	143.5	120.5	101.9	99.3
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	70.0	71.6
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	18.4	17.9
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	267.6	266.2
Total equity and liab.	688.4	624.0	672.4	697.6	800.5	707.1	736.1

Source: Research Dynamics, Company data

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	43.2	40.5
Non-cash adjustments:	30.3	35.3	33.9	(1.5)	26.3	32.2	31.5
Change in current assets and liabilities:							
(Increase)/ decrease in inventories	(5.5)	8.4	(13.1)	13.6	(8.6)	(2.6)	(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)	0.3	1.6
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	69.1	71.5
Investments in tangible fixed assets	(19.2)	(21.9)	(20.7)	(32.3)	(22.3)	(29.9)	(31.9)
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)	(1.5)
Investments in business activities	-	-	(18.5)	-	(27.9)	-	-
Cash flow generated (used) in investment act.	(19.4)	(22.0)	(19.9)	(19.3)	(46.0)	(32.8)	(33.4)
Increase/ (Decrease) in short-term financial liabilities and receivables	(0.4)	(15.3)	0.1	1.0	(4.3)	(7.1)	(0.5)
Increase/ (Decrease) in long-term financial liabilities	9.8	(1.1)	19.0	(0.6)	(3.0)	(18.6)	(2.5)
Increase in other long-term liabilities	(0.2)	(0.1)	(0.4)	0.2	2.1	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)	(10.8)	(10.1)
Cash flow generated (used) in financing act.	5.3	(20.4)	15.2	(3.3)	(9.1)	(36.5)	(13.1)
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	(0.1)	25.0
Opening cash balance	63.9	69.9	53.1	70.3	80.1	89.0	88.9
Closing cash balance	69.9	53.1	70.3	80.1	89.0	88.9	113.9

Source: Research Dynamics, Company data

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	(1%)	(8%)
Net Income Growth	NM	NM	NM	NM	165%	2%	(6%)
Profitability Ratios (%)							
Operating margin (before impairment) (%)	3%	(5%)	1%	1%	10%	9%	9%
Chemistry division	(4%)	(3%)	2%	5%	8%	9%	9%
Paper division	4%	(11%)	(2%)	(5%)	10%	9%	7%
Packaging division	4%	5%	8%	7%	10%	11%	11%
EBITDA Margin %	10%	3%	8%	7%	16%	15%	14%
Net Margin (%)	2%	(8%)	(2%)	3%	8%	8%	7%
Return Ratios							
Profit Margin	2%	(8%)	(2%)	3%	8%	8%	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%	10%	9%
ROCE (%)	3%	(4%)	1%	1%	10%	9%	8%
ROA (%)	2%	(5%)	(1%)	2%	6%	6%	6%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.3x	0.4x	0.4x	0.6x	0.3x	0.2x
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	9.3x	19.6x
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	1.6x	1.9x
Valuation Ratios							
EV/EBITDA	6.2x	25.8x	17.8x	19.5x	7.9x	7.9x	8.3x
P/E	22.9x	NM	NM	31.0x	11.7x	11.5x	12.2x
P/BV	0.5x	0.6x	1.3x	1.3x	1.2x	1.1x	1.1x

Source: Research Dynamics, Bloomberg, Company data

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