

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

FY2019 earnings update

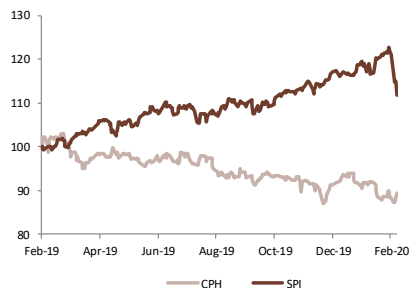
28 February 2020

Company Data

Price:	CHF 76.8
Market Cap:	CHF 461mn
Free Float:	41.2%
No. of shares:	6.0mn
Avg. traded volume (30 days):	531
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

	2018	2019	2020E	2021E
Sales	533.5	524.7	503.8	514.2
EBITDA %	15.6%	16.8%	11.5%	12.2%
EBIT %	9.7%	10.8%	5.2%	6.1%
Net Margin %	7.9%	9.2%	4.4%	5.2%
Basic EPS	7.05	8.06	3.70	4.45
Diluted EPS	7.05	8.06	3.70	4.45
DPS	1.80	1.80	2.07	1.91
Equity Ratio %	50.7%	62.6%	63.5%	64.6%
Capex	(18.2)	(22.0)	(30.5)	(32.2)
P/Sales	0.9x	0.9x	0.9x	0.0x
P/E	10.9x	9.5x	20.7x	17.3x
EV/EBITDA	5.9x	5.6x	8.5x	7.8x

Next Events

AGM	17 Mar 2020
1H 2020 Results	21 Jul 2020
Investor Day	8 Sep 2020

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Resilient performance despite global slowdown

2019: Unprecedented EBIT margin reflects disciplined execution

CPH group reported net sales of CHF 524.7mn for the full year 2019, down 1.7% compared to the prior year. The decline in absolute terms was CHF 8.9mn, out of which CHF 6.8mn (-1.3% y/y) were attributable to FX headwinds. Revenue decreases were observed in the Paper and Chemistry divisions, where sales for FY2019 decreased 2.6% y/y to CHF 293.2mn and 1.5% y/y to CHF 78.2mn, respectively. The Packaging division showed a slight improvement with revenue up 0.1% y/y to CHF 153.2mn (up 1.7% if adjusted for FX).

The Group's reported sales came slightly below our projections and company guidance. The expectation was that the group would deliver marginally higher annual sales and maintain the EBIT margin at the levels of FY2018. While the group slightly missed revenue guidance, the EBIT improved significantly to CHF 56.6mn (+9.6% y/y) and the corresponding margin increased by 110bps to 10.8%, thus significantly above the guidance. EBIT margin thus reached double-digits for the first time since the stock exchange listing in 2001. The improvement was largely attributable to the reduction in the cost of key production items and cost of materials. Net profit improved significantly to CHF 48.5mn (+14.6% y/y), while non-operating income grew to CHF 0.8mn from CHF 0.1mn in FY2018. Gross profit was up 2.1% y/y to CHF 226.9mn and the corresponding margins improved ~150bps to 43.2%. Although the group started FY2019 on a positive note and reported a favorable 1H19, declining demand in the Chemistry and Paper business as well as production overcapacities and pricing pressure in the Paper business were the key headwinds that impacted the overall business in the second half of the year. On the dividend, the company proposes to the AGM of 17 March to distribute CHF 1.80 per share through a reduction of the nominal value to CHF 0.20 per share from CHF 2.0 per share, which will be tax-free for Swiss shareholders.

The Packaging division's revenue improvement was mainly driven by better product mix and improved pharmaceutical market trends. Operating profit surged to CHF 17.3mn (up 12.0% y/y) with the corresponding margin expanding by ~120bps to 11.3%. The softer revenues from the Chemistry was primarily due of lower demand on the back of the global economic slowdown and the US-China trade tensions. EBIT declined significantly to CHF 4.4mn (-28.1% y/y) with the corresponding margins contracting over-proportionately by ~210bps to 5.6%. The Paper division's sales decreased by 2.6% y/y (-1.1% y/y excluding FX impact) to CHF 293.2mn on the back of reduced demand on Europe's paper market and pricing pressure. Sales volume for newsprint and magazine paper products was down 4.3% y/y to 517k tonnes. However, operating profit improved by an impressive 15.2% y/y to CHF 34.7mn, thus the corresponding margin improved ~180bps to 11.8% primarily driven by cost efficiencies.

Focus on divisional balancing and expansion of planned activities

As the European paper market has been persistently challenging with volumes both in newsprint and magazine paper declining (and thus resulting pressure on paper prices), the company consequently started to actively focus on the expansion of its Chemistry and Packaging divisions five years ago in order to reduce its dependency on the Paper division. Also, the company has been successfully reducing its dependency on Swiss franc by developing new manufacturing facilities outside Switzerland. In addition, CPH strives to enhance its presence in higher growth markets outside of Europe such as Asia and the Americas. The successful implementation of this strategy has clearly born fruits in the past – not least in 2019 – and forms the basis for the renewed five-year corporate strategy until FY2024 (see more on this on page 2).

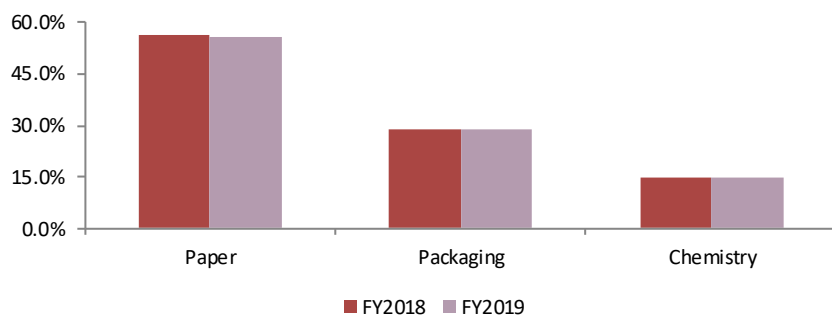
Valuation: significant discount compared to peers

CPH's share price was not able to profit from the positive stock market environment in 2019, reflecting the reduced demand and pricing pressure in the Paper division. However, at the current price level, CPH trades at a discount of 25% to its peers on 2020e P/S. Similarly, CPH is trading at a discount of 25% to its peer average EV/EBITDA for 2020e. Our DCF based target price is CHF 90.0 per share, implying an upside of 17.2% from the current level. We expect the company to achieve its earnings targets in the medium-term on the back of cost efficiencies and sustainability initiatives. However, increasing pricing pressure and currency volatility due to geo-political issues remains an overhang in the short term.

FY2019 – record EBIT with double-digit margins

In 1H19, the utilization levels of CPH were reasonable across production facilities. However, the second half witnessed declines in the Chemistry and Paper segments primarily driven by the global economic slowdown on the back of the US-China trade war and Brexit uncertainty, leading to weak demand and increased pricing pressure. As a result, net sales for FY2019 decreased by 1.7% y/y to CHF 524.7mn. The Packaging division reported slight improvement in the net sales (+0.1% y/y; +1.7% y/y excluding FX) with the share of net sales generated outside of Europe increasing from 35% in 2018 to 37% in 2019. The volumes of films were negatively impacted by reduced growth in Asian and Latin American countries. However, the company managed to improve net sales through increased proportion of premium higher-barrier films. The Packaging division is further focusing on efficiency gains at its Brazilian, US and German plants. The Chemistry division reported a decline of 1.5% y/y in net sales (-1.6% y/y excluding FX) mainly due to imposed tariffs and thus some lost contracts on the back of the US-China trade dispute. The Paper division witnessed a decline in sales volume (in tonnes) because of the growing overcapacities in the market and reduced demand. The demand for newsprint reduced 7.5% y/y while the demand for magazine paper was down 11.7% y/y. However, thanks to higher paper prices especially in the first half of the year, the impact on net sales for the division was only -2.6% y/y (-1.1% excluding FX).

Exhibit 1: CPH Net sales by division

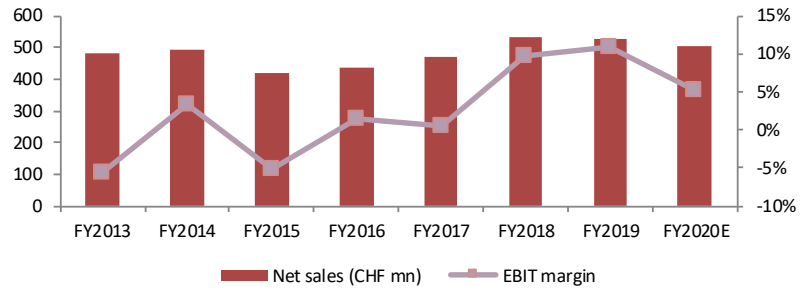


Source: Company data, Research Dynamics

On the expense side, CPH’s energy costs decreased by 5.0% to CHF 52.5mn (vs. CHF 55.3mn in 2018) and the energy costs as a percentage of sales declined further to 10.0%, as compared to 10.4% in 2018. Personnel costs increased slightly to 0.6% y/y to CHF 92.9mn, due to expansion activities in the Packaging and Chemistry division. The Group’s overall workforce number increased to 1,086 from 1,081 and the share of personnel cost relative to sales increased slightly to 17.7% from 17.3% in the previous year. The cost of materials decreased to CHF 260.2 (CHF 269.8 in 2018), thus decreasing as a percentage of sales by 100bps from 50.6% in 2018 to 49.6% in 2019. Gross profit thus increased by 2.1% y/y to CHF 226.9, with the corresponding margin improving by 160bps to 43.2%.

Similarly, EBITDA increased by 5.9% y/y to CHF 88.0mn in 2019, resulting in a record high EBITDA margin of 16.8%. The group reported an improvement of 9.6% y/y in EBIT to CHF 56.6mn, with a record high double-digit EBIT margin of 10.8%. The adjusted net profit (adjusted for one-time non-operating profit of CHF 0.8mn for disposal gain on real estate) improved by 12.8% y/y to CHF 47.6mn in 2019. The reported net profit improved by 14.6% y/y to CHF 48.5mn including the disposal of real estate gain. In addition, the company announced to propose to the AGM to repay CHF 1.80 per share to its shareholders by reducing the nominal value of its shares from CHF 2.00 to CHF 0.20, instead of paying a regular dividend. The distribution would be tax-free for its Swiss shareholders. Also, in 2019, the Group generated CHF 79.9mn cash flow with an adjusted free cash flow of CHF 39.9mn., excluding CHF 100 million fixed term deposit.

Exhibit 2: CPH Net sales vs EBIT margin



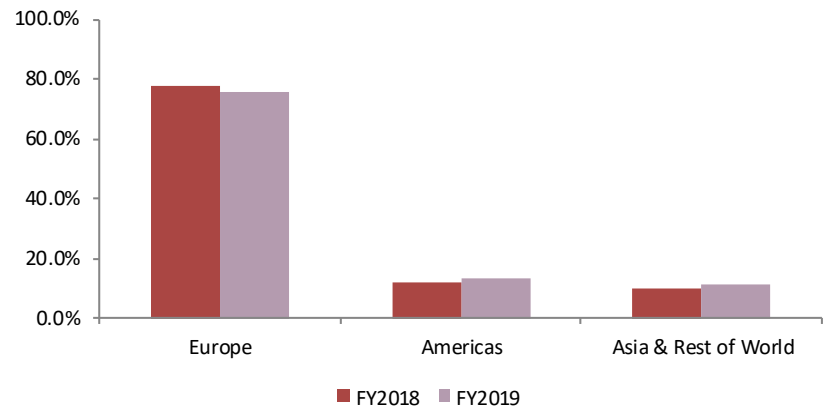
Source: Company data, Research Dynamics

Strategy 2024 adopted with a focus on sustainability

Currently, Europe still remains the biggest source of revenue with ~76% of the total generated from the region. The company has consistently been expanding into growth markets outside of Europe as well as reducing its currency dependency on the Swiss franc. Simultaneously, the Group has been focusing on expanding its Chemistry and Packaging divisions with a focus on the high-growth markets in Asia and Latin America. The successful implementation of this strategy, commenced five years ago, is supported by numbers: the share of sales by the Chemistry and Packaging division has risen to 44.1% in 2019 as compared to 36.0% in 2013, revenues coming from outside of Europe have increased to 24.0% in 2019 as compared to 16.0% in 2013 and the dependency on the Swiss franc was reduced from 68% to 40%. With the successful execution of this strategy, CPH has further announced a new five-year corporate strategy to 2024, where each division is expected to achieve either revenue or cost leadership in their respective markets (see also p 5ff of this report for further detail on this).

Thus, in terms of geographies, Europe at still 76% continues to be the biggest contributor in 2019, however, the share declined from 78% in 2018. At the same time, the contribution from the Americas increased to 13% (12% in 2018) and Asia & Rest of World stood at 11% (10% in 2018).

Exhibit 3: CPH net sales by region



Source: Company data, Research Dynamics

In addition to the company’s growth strategy, CPH has been following a sustainable approach in social, economic and environmental aspects and makes significant contribution towards circular economy. The commitment on environmental aspects has been traditionally in focus especially at the Paper division where the company has consistently pursued strategies to reduce CO₂ emissions (Renergia, more locally source recycled paper by the acquisition of Utzenstorf, others), resulting in significantly lower CO₂ emissions of 144 kg per tonne (vs. the industry average of 616 kg per tonne). While this has not yielded additional sales in the competitive paper market, the company believes that the commitment to environmental aspects still helps it towards its clients and at the same time bodes well to conform to stringent government regulations. However, not only in the Paper but also the other divisions sustainability plays an important role. Thus, the company uses recyclable products across all the three segments. As an example in the Chemistry division, CPH has replaced coal at the Donghai site in China by natural gas.

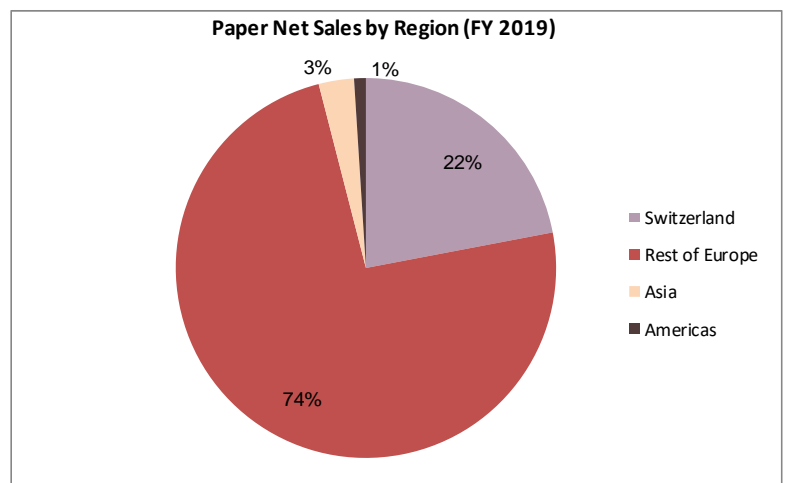
Segmental performance

- **Paper: Robust EBIT margin despite pricing pressure**

In 2019, the Paper division’s sales declined by 2.6% y/y (-1.1% y/y excluding FX) to CHF 293.2mn, due to – on the positive side – higher paper prices especially in the first half of the year and – on the negative side – declining volumes. As such, the total paper volume sold during 2019 stood at 5,17,165 tonnes, 4.3% lower than 2018 level. Out of this, newsprint paper volume was 3,46,778 tonnes and magazine paper volume was 1,70,387 tonnes. The declining demand trend persisted in the European media market due to increased traction for digital channels. Demand in Western Europe declined by 45% over the past ten years however, in 2019, the paper division witnessed a slight improvement in market share in Western Europe for newsprint as well as magazine paper.

Region-wise, sales witnessed a slightly increasing share of sales coming from Asia (3% vs. 1% in 2018). Exports to the rest of Europe reduced from 77% of total sales in 2018 to 74% in 2019, while Switzerland stood still at a significant 22% (21% in 2018).

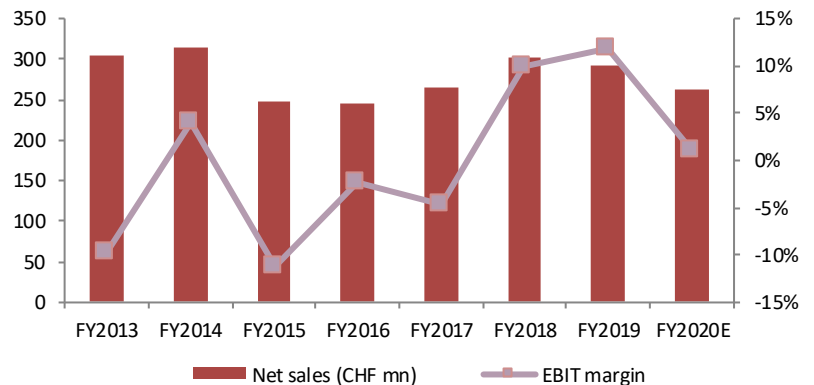
Exhibit 4: Paper sales by region – 2019



Source: Company data, Research Dynamics

The division was impacted negatively by weakened demand for both newsprint and magazine paper however, improved efficiencies helped profitability. EBITDA for the segment improved 7.2% y/y to CHF 54.5mn, bringing the EBITDA margin to 18.6% which is clearly the highest level in the industry. The EBIT margin increased by 15.2% y/y to CHF 34.7mn and the corresponding margin expanded ~180bps to reach also a record high of 11.8%. The improvement was driven by improved efficiency on the back of lower recovered paper prices and decline in energy cost.

Exhibit 5: Paper sales and EBIT margin



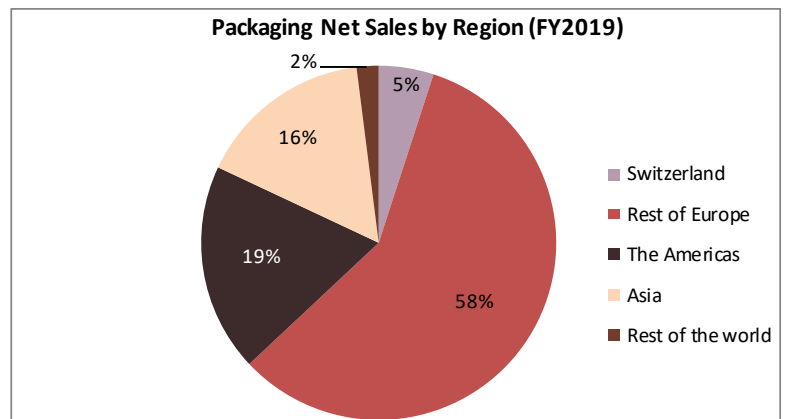
Source: Company data, Research Dynamics

• Packaging: Profitability improvements continue

The net sales for the Packaging division improved slightly by 0.1% y/y (+1.7% y/y excluding FX) to CHF 153.2mn. The improvement was primarily driven by an increased proportion of higher-barrier films, however, this was partially offset by reduced demand in Asian and Latin American countries. The division, under its geographical diversification strategy, has developed production and finishing plants in Asia, Europe, North and South America over the past few years. The company further plans to expand its position in Asia and Latin America. However, the outbreak of Coronavirus might impact its operation in the near-term. Moreover, CPH is focussing on efficiency enhancement at the US, Brazilian and German plants.

Region-wise in FY2019, Europe was the largest revenue contributor with 63% of net sales (vs. 65% in 2018), followed by the Americas (19%), Asia (16%) and the Rest of the World (2%). Domestic sales contribution was 5%.

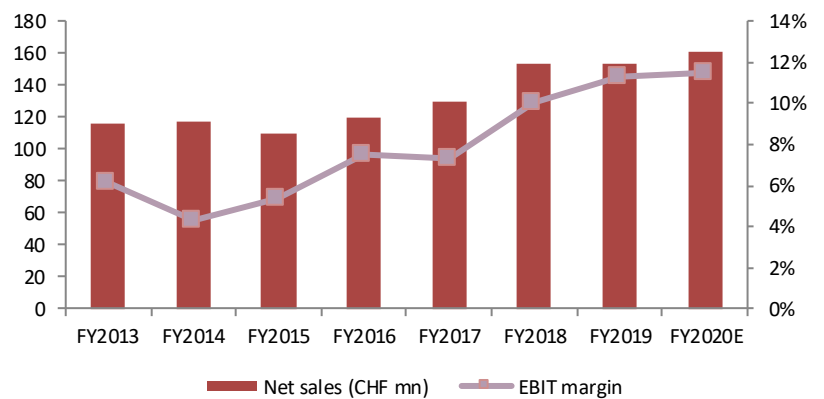
Exhibit 6: Packaging sales by region – 2019



Source: Company data, Research Dynamics

EBITDA grew 10.1% y/y to CHF 23.7mn while EBIT improved 12.0% y/y to CHF 17.3mn while the corresponding margin remained in double-digit and expanded ~120bps to 11.3%.

Exhibit 7: Packaging net sales and EBIT margin



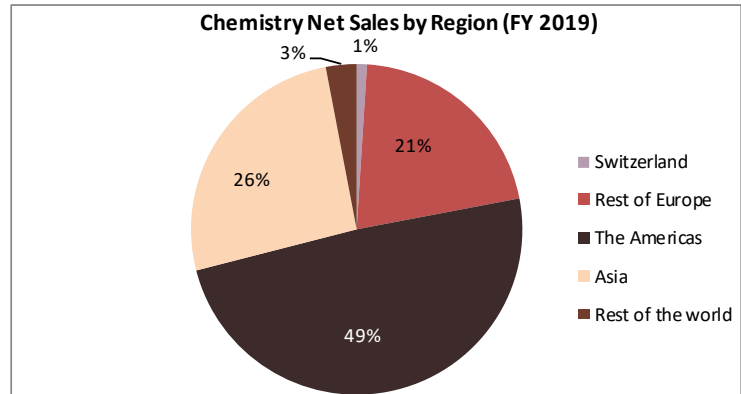
Source: Company data, Research Dynamics

• Chemistry: Global economic slowdown dampened the business

The Chemistry division saw a positive first-half in 2019 with sales increasing by over 6%. However, the business got significantly affected in the second-half year with the global economic slowdown, rising trade tensions between the US and China and the Brexit uncertainty. The division witnessed a decline of 1.5% y/y (-1.6% y/y excluding FX) for the full year, with net sales coming in at CHF 78.2mn. Production sites in the US and China account for ~80-85% of sales and, as such, trade-tariffs and increased import restrictions from China impacted the top-line (also because some clients found other suppliers due to the trade war).

The Americas accounted for 49% of the total revenue of 2019, followed by Asia (26%), Europe (22%) and the Rest of the World (3%). As this is the most global division of the Group, Switzerland only accounted for 1% of total revenue.

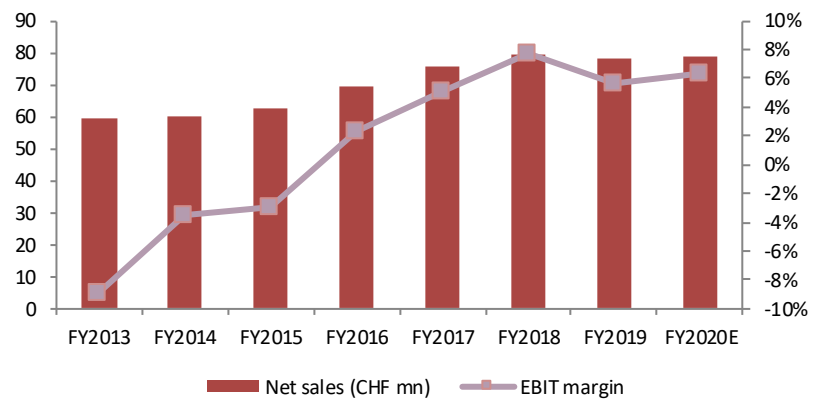
Exhibit 8: Chemistry sales by region – 2019



Source: Company data, Research Dynamics

On the profitability side, there was a significant impact. EBITDA was down 11.4% y/y to CHF 9.5mn while EBIT decreased significantly by 28.1% y/y to CHF 4.4mn with the margins coming in at 12.1% (13.5%) and 5.6% (7.7%), respectively. The decline was, among others, attributable to lower volumes in the second half, higher personnel costs (also increased marketing expenses) and higher proportion of lower-margin products.

Exhibit 9: Chemistry net sales and EBIT margin



Source: Company data, Research Dynamics

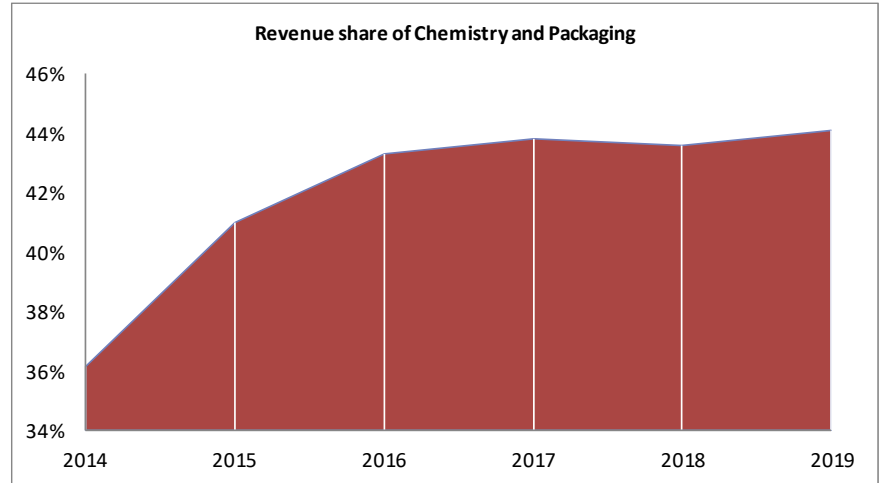
Business strategy 2024 with sustainability at core

With the company long-term orientation and commitment to sustainable developments, the Group continues on its so far successful corporate strategy embarked upon five years ago. It focuses on the three core pillars:

1. Reduction of the dependency on the Paper division by strengthening the Chemistry and Packaging divisions
2. Improvement of the geographical diversification by increasing sales in higher-growth markets such as Asia and the Americas with a focus on South America;
3. Reduction of currency volatility by reducing the exposure to the Swiss franc

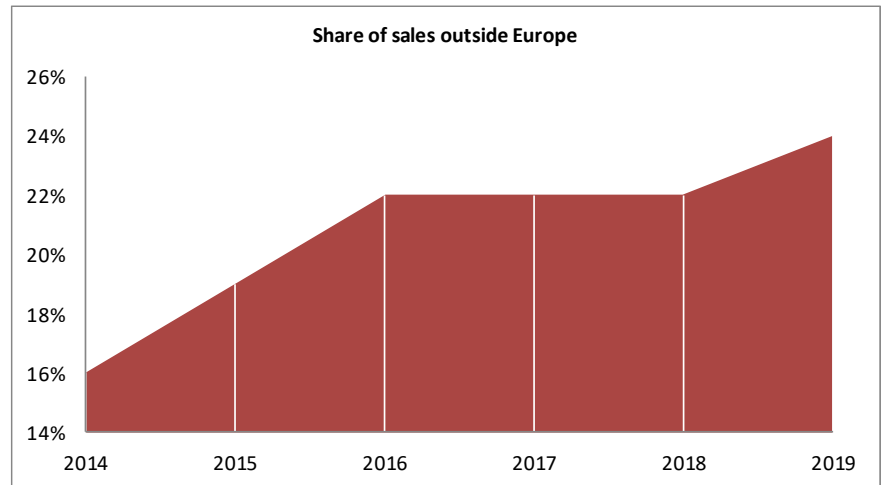
In 2019, CPH formulated its corporate strategy for 2024, which is in-line with its previous strategy, with the aim of staying cost leader in the Paper division and improving market positions in both the Chemistry and Packaging divisions by differentiating through innovation, customer-orientation, quality and efficient processes.

Exhibit 10: Revenue share of Chemistry and Packaging division (1st pillar)



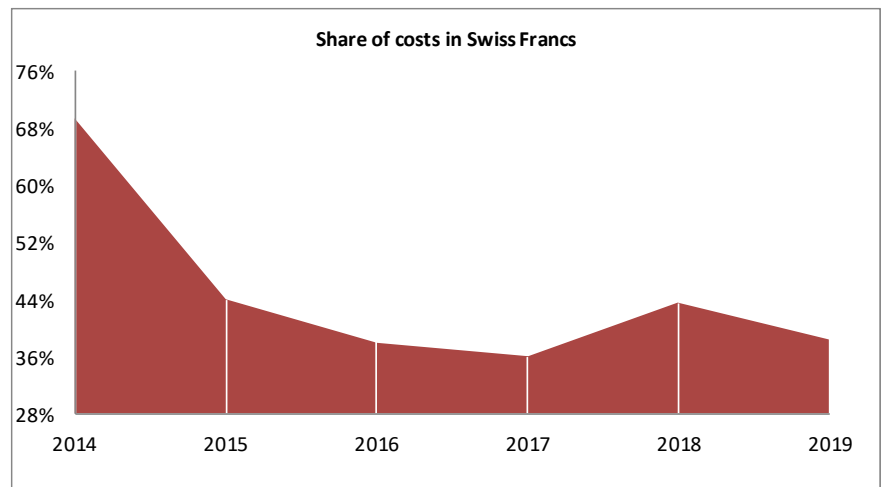
Source: Company data, Research Dynamics

Exhibit 11: Sales contribution from outside Europe (2nd pillar)



Source: Company data, Research Dynamics

Exhibit 12: Reducing dependency from the Swiss franc (3rd pillar)



Source: Company data, Research Dynamics

Focus on sustainability

In addition to being competitive, the company focuses on being sustainable in its operations and on making significant contributions to overall social, economic and environmental aspects. For this, the company has been undertaking efforts to reduce CO₂ emissions, utilizing wastewater, to increase the share of recycled paper sourced more locally and to lower its energy consumption. In addition, the Group plans to invest CHF 29.4mn in tangible assets in 2020 to enhance efficiency and increase productions further.

Paper

The Paper industry continued its trend of declining demand due to increasing shift towards digital media channels. This has resulted in overcapacity of production facilities and pricing pressure. The company follows a volume-based strategy for this division and strives to become the cost leader. In addition, the division plans to expand its operations in the recycling market as it is the biggest recycler of recovered paper in the domestic market. The Paper division plans to invest ~CHF 9.9mn in 2020 to enhance its production processes.

From a sustainability point of view, the division's Perlen site has become carbon-neutral in its production activities. The division recycles majority of the waste paper with minimum use of natural resources. The division produces 144 kg CO₂ per tonne of paper which is ~25% of its industry peers with average of 616 kg per tonne. This should help the company to sustain under stricter environmental laws. In addition, CPH owns biomass and hydropower plants which are ISO 14001 environmentally certified.

Packaging

CPH's Packaging division is among one of the world's top three suppliers of pharmaceutical packaging films in its respective markets. The division focuses on expanding its geographical presence and for this, it has developed a production and finishing plant network in Europe, Asia, and the Americas. The Packaging division is also focusing on emerging markets of Asia and Latin America for growth where the health cost is increasing. In addition, the company has obtained product license for its new manufacturing plant in Suzhou which should also help in generating new business in China. CPH further plans to invest CHF 11.6mn for expanding its production facilities in 2020.

For sustainability, the division uses PVC which is easy to process and reusable. In addition, the utilization rate for the same is 99%. The company's Müllheim location is ISO 50001 energy certified and completely switched to green energy and obtains all its electricity from eco-power sources.

Chemistry

The Chemistry division (most geographically diversified but also the smallest) witnessed consolidation in the second-half of 2019 after successful repositioning in the first-half. However, the demand for molecular sieves in the medical and energy sector, for gels and deuterated products remained high in 2019. The division has its production sites in Europe, China and the US. Zeochem is one of the three market leaders in the silicate chemistry sector and this achievement came in 2018 with the movement of Swiss operation to the new Rütli premises where each production plant has its own clear alignment and focuses on specific tasks. The company also focuses on expanding its high-value product business and also expanded its distribution network in Brazil and the Middle East during 2019. Moreover, CPH plans to invest CHF 8.6mn in tangible fixed assets for further expansion.

For sustainability, the company focuses on using aluminum silicate which is reclaimable and can be synthetically produced or naturally mined. The Chemistry division's Zvornik and Donghai locations are ISO 14001 environmentally certified. Further, the Donghai site has replaced coal with natural gas. The company, in order to reduce transportation cost, obtains intermediate products directly from Bosnia-Herzegovina and China. In addition, CPH has installed new filter systems in the US and China to reduce dust emission.

CAPEX and investments

In 2019, the company had not done any acquisitions, but CPH is open to take the inorganic route for growth and could invest ~CHF 80-100mn if there are synergistic opportunities available. For this, the Group has secured credit lines in the respective amount.

Current Liquidity position

The Group's leverage has reduced significantly to 0.3x at the end of 2019 from 6.6x in 2015. CPH had gross debt of CHF 122.7mn at the end of 2019 (vs. CHF 246.3mn in 2018). Also, the company has an additional line of credit of CHF 40mn from Swiss banks. At the end of fiscal 2019, the Group held liquid funds of CHF 93.1mn along with a nominal short-term financial receivables generated from the CHF 100mn corporate bond issued on 12 October 2018. CPH had an equity ratio of 62.8% at the end of 2019.

Repayment instead of Dividend: On the dividend, the group decided to propose to the AGM of 17 March to reduce its nominal value of share to CHF 0.20 from CHF 2.00 early. The difference of CHF 1.80 per share would be paid to shareholders, amounting to CHF 10.8mn in total. The group generated free cash flow of CHF 39.9mn (excluding the repayment of CHF 100mn fixed-term deposit) in 2019. The continued generation of free cash flow should enable the company to keep investing (CHF 29.4mn expected in 2020) in addition to improving its financial situation.

Outlook and estimates

The year 2019 turned out to be full of economic uncertainties owing to escalated trade tensions between the US and China, political unrest in some parts of South America, policy uncertainties and Brexit uncertainty. These series of events led to turbulence in global business chains and adversely impacted the global GDP which slowed down to 2.9%. Though IMF has forecasted a slight recovery in global GDP with growth of 3.3%, dark clouds of economic uncertainties persist. CPH is finding it difficult to maintain its revenue performance in 2020 and expects the year's sales to be below the 2019 level reflecting macro-economic headwinds in addition to a weaker Paper division. Moreover, overall group margins are expected to take a hit due to a Paper division which is expected to be struggling due to lower paper demand and thus prices, as well as a higher Swiss franc towards the Euro. In addition, emerging issues pertaining to coronavirus outbreak cannot be foreseen. The company has thus given its mid-term financial targets with organic net sales growth of more than 3% y/y, EBITDA margin of over 10% and liquidity of at least CHF 30-50mn.

We expect the group's strategy of reducing its dependence on the Paper division and taking combined contribution from Chemistry and Packaging segments to more than Paper division by 2024 should provide impetus to its business growth. In addition, the group's measures such as building new manufacturing capacities outside Switzerland to immune itself from exchange volatility should provide further stability to its profitability.

Paper- Continued focus on efficiencies for attaining cost leadership

The Paper division operates in a market which has been losing its shine over the years. Western Europe has seen a decline of 45% in newsprint demand over the past ten years. Demand has taken a toll owing to disruption caused by digital channels. The existing situation in the Paper market was exacerbated in 2019 as no print capacities were withdrawn during the year that heightened the pricing pressure further. According to projections by industry associations, wood-based graphic paper in Western European market will continue to see further decline of 6-8% in total demand during 2020.

The industry is expected to witness consolidation owing to continued overcapacity in the market. Paper prices are to remain in doldrums. We expect the division to sail through this with its focus on being the cost leader in the Western European market. The Paper division continues to make investments to improve its production processes. Accordingly, net sales for 2020 is expected to be short of 2019 level ascribed to prevailing headwinds in the market, however, the division is expected to deliver positive EBIT driven by continued efficiency gains.

Packaging- To strengthen presence in high growing emerging markets

The Packaging division involves in producing pharmaceutical packaging films (PVC mono and coated PVdC films) and is amongst the world's top three suppliers in concerned markets. Over the years, the division has established a strong position in saturated European markets and now targets to expand in emerging markets of Asia and Latin America. Suzhou's manufacturing plant has obtained product licenses for the domestic market, which would also help growing new business within China.

According to the company, current industry estimates suggests global annual growth of 3-6% for pharma packaging in 2020. Accordingly, the Packaging division aims at above-market-average growth for the year. With consistent investments in building additional capacities and supply flexibilities, the division expects to deliver improvement in its EBIT over the 2019 level.

Chemistry: Largely dependent on improving industry sentiments

CPH’s Chemistry division engages in production of silica-based molecular sieves which find its usage in industrial, chemical industries and the production of fuels. Growth in this division is largely dependent on the overall investments across industries. The US-China trade dispute along with slowing global economy dampened the industry sentiments that eventually resulted in operational loss to the company. The division continues to focus on high-value items and strengthen its presence in high growth markets. Deuterated products segment continues to have favorable prospects. Accordingly, the Chemistry division expects to have slightly higher sales than 2019 level vis-à-vis improvement in the corresponding EBIT.

Valuation and conclusion:

The group had shown resilient performance despite of slowing global economy with top-line decreasing slightly by 1.7% y/y (-0.4% y/y excluding FX). However, due to cost efficiencies achieved, CPH reported the highest ever achieved EBIT margin of 10.8% for the full year 2019.

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 90.0 reduced from the previous CHF 100.6 as we reduced our estimates due to declining paper prices, challenging economic conditions, currency headwinds and modest outlook, implying an upside of 17.2% from the current levels.

For the relative valuation, 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 the CPH’s divisions.

We have employed 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 divisions. Given its diversified business model, this consolidated peer average is the most comparable approach to value CPH.

CPH currently trades at a P/S multiple of 0.9x (FY2020E), a significant 25% 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 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 and cost leadership and further cost saving initiatives, advanced technology and continued operational improvements, although the business environment with overcapacities and decreasing demand for newsprint paper remains challenging.

Exhibit 13: Sensitivity of upside

		Sensitivity Table				
		WACC				
Terminal growth rate		4.8%	5.8%	6.8%	7.8%	8.8%
	0.25%	115	96	82	72	64
	0.50%	121	99	84	74	65
	0.75%	127	103	87	76	67
	1.00%	134	108	90	78	68
	1.25%	142	112	93	80	70
	1.50%	152	118	97	82	72
	1.75%	163	124	101	85	74

Source: Company data, Research Dynamics

Exhibit 14: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2020E	CY2021E	3 year average	CY2020E	CY2021E	3 year average	CY2020E	CY2021E
CPH Chemie & Paper	8.4x	6.5x	6.2x	0.9x	0.9x	0.9x	15.0x	14.4x	14.7x
Paper peers:									
Holmen	NA	16.5x	15.5x	NA	3.0x	3.0x	NA	25.1x	23.0x
Stora Enso	8.1x	8.6x	7.6x	1.0x	0.9x	0.9x	14.9x	16.2x	12.6x
Altri	7.3x	8.0x	7.0x	1.7x	1.4x	1.3x	10.4x	12.6x	8.8x
Metsa Board	12.0x	8.2x	7.1x	1.2x	1.0x	0.9x	15.0x	14.7x	11.3x
UPM-Kymmene	8.7x	9.1x	8.6x	1.4x	1.6x	1.5x	13.0x	16.4x	15.3x
Norsk Skogindustrier	9.5x	NA	NA	0.0x	NA	NA	2.8x	NA	NA
James Cropper	17.5x	NA	NA	1.4x	0.0x	0.0x	36.0x	21.3x	16.6x
OJI Holdings	8.7x	756.0x	712.1x	0.4x	0.3x	0.3x	14.2x	7.9x	7.2x
Chemistry peers:									
Honeywell Int.	13.2x	12.9x	12.2x	2.8x	3.0x	2.9x	21.3x	18.1x	16.7x
Clariant	11.4x	NA	NA	1.3x	NA	NA	30.6x	NA	NA
Arkema	6.3x	6.3x	6.1x	0.9x	0.8x	0.7x	13.1x	10.9x	10.1x
WR Grace & Co.	15.2x	8.7x	8.2x	2.6x	1.8x	1.7x	32.8x	11.3x	10.4x
Packaging peers:									
Meadwestvaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	10.8x	0.1x	0.1x	0.7x	0.0x	0.0x	16.8x	11.6x	10.8x
Gerresheimer	10.3x	9.6x	8.7x	1.6x	1.4x	1.3x	27.8x	15.5x	13.5x
West Pharmaceutical Services	23.0x	25.5x	22.6x	4.9x	5.8x	5.4x	40.0x	44.0x	38.7x
Convertidora Industrial	5.4x	NA	NA	0.3x	NA	NA	37.8x	NA	NA
PSB Industries	5.1x	3.9x	3.6x	0.4x	0.3x	0.3x	14.8x	12.9x	8.3x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bikcare Ltd	19.5x	NA	NA	0.0x	NA	NA	7.4x	NA	NA
Median	10.3x	8.7x	8.2x	1.2x	1.2x	1.1x	15.0x	15.1x	12.0x
High	23.0x	756.0x	712.1x	4.9x	5.8x	5.4x	40.0x	44.0x	38.7x
Low	5.1x	0.1x	0.1x	0.0x	0.0x	0.0x	2.8x	7.9x	7.2x
Premium (disc) to peers	(19%)	(25%)	(24%)	(28%)	(25%)	(21%)	(1%)	(5%)	23%

Source: Bloomberg (as on 27 February 2020)

Exhibit 15: CPH – Comparison with weighted average of division peers

	EV/EBITDA			P/S			P/E		
	3 year average	CY2020E	CY2021E	3 year average	CY2020E	CY2021E	3 year average	CY2020E	CY2021E
Weighted peer multiples	9.8x	8.2x	7.5x	1.1x	1.0x	1.0x	18.3x	14.9x	12.2x
CPH	8.4x	6.5x	6.2x	0.9x	0.9x	0.9x	15.0x	14.4x	14.7x
Premium (disc) to peers	(14%)	(21%)	(17%)	(21%)	(16%)	(13%)	NM	(3%)	21%

Source: Bloomberg (as on 27 February 2020)

DETAILED FINANCIAL STATEMENTS

Income statement

CHF mn (except per share)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Chemistry sales	63	69	75	79	78	79	81
Paper sales	248	246	264	301	293	264	264
Packaging sales	110	119	130	153	153	161	170
Net Sales	420	435	470	534	525	504	514
Cost of Sales	(285)	(267)	(309)	(311)	(298)	(307)	(311)
Gross profit	135	168	161	222	227	196	203
Personnel cost	(86)	(89)	(84)	(92)	(93)	(93)	(95)
Outsourced maintenance/repairs	(16)	(18)	(17)	(19)	(20)	(18)	(18)
Other operating expense	(21)	(25)	(26)	(28)	(26)	(28)	(27)
Total operating costs	(123)	(131)	(127)	(139)	(139)	(139)	(140)
EBITDA	12	37	34	83	88	58	63
Depreciation on tangible fixed assets	(34)	(31)	(30)	(30)	(30)	(30)	(30)
Depreciation on intangible assets	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	(22)	6	3	52	57	26	31
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	(22)	6	3	52	57	26	31
Finance costs	(13)	(6)	(8)	(7)	(6)	(3)	(3)
Finance income	1	1	2	1	0	0	0
Total financial income (expenses)	(12)	(5)	(7)	(6)	(6)	(3)	(3)
Profit before taxes (before exceptional items)	(34)	1	(4)	46	51	24	29
Non-operating items	2	(4)	23	0	1	1	1
Income taxes	(1)	(4)	(3)	(3)	(3)	(2)	(3)
Profit attributable to the parent	(33)	(8)	16	42	48	22	27
Basic EPS	(5.5)	(1.3)	2.7	7.1	8.1	3.7	4.5
Diluted EPS	(5.5)	(1.3)	2.7	7.1	8.1	3.7	4.5
DPS	0.6	0.7	0.7	1.8	1.8	2.1	1.9

Source: Company data, Research Dynamics

Balance sheet

CHF mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Assets							
Non-current assets							
PPE	404.3	384.6	384.1	376.1	366.4	365.4	366.1
Intangible assets	2.4	3.1	4.8	5.8	5.6	5.6	5.6
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	0.0	0.0	0.0	0.0	0.0
Other non-current assets	20.2	52.6	56.4	55.3	54.0	54.0	54.0
Total Non Current Assets	436.9	450.3	455.3	447.2	436.0	435.0	435.7
Current assets							
Inventories	54.5	68.9	59.2	69.6	78.5	71.8	71.8
Trade accounts receivable	66.4	69.1	77.8	72.1	72.4	69.3	70.8
Other receivables	8.0	8.9	18.0	13.1	14.0	14.0	14.0
Prepaid expenses and accrued income	4.9	4.8	7.0	9.2	8.6	8.6	8.6
Short-term financial receivables	0.0	0.1	0.0	100.3	0.0	0.0	0.0
Liquid funds and Securities	53.2	70.4	80.2	89.0	93.1	111.9	120.6
Total assets	624.0	672.4	697.6	800.5	702.7	710.6	721.6
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	12.0	12.0	1.2	1.2
Capital reserves	8.4	4.8	0.8	15.0	4.2	4.2	4.2
Profit reserves	397.4	351.2	346.4	336.2	375.2	423.5	434.3
Net result for the year	(33.1)	(7.9)	16.0	42.3	48.3	22.2	26.7
Non-current liabilities							
Long-term financial liabilities	126.5	145.6	143.5	120.5	116.8	111.8	108.0
Pension scheme liabilities	1.0	1.1	0.6	1.3	0.7	0.7	0.7
Other long-term liabilities	2.3	0.1	0.0	0.8	0.6	0.6	0.6
Long-term provisions	20.0	52.5	51.8	50.0	47.5	47.5	47.5
Current liabilities							
Trade accounts payable	46.7	53.1	69.5	69.7	66.3	67.8	67.5
Other payables	2.6	8.3	3.3	4.1	3.6	3.6	3.6
Accrued liabilities and deferred income	13.6	16.5	17.2	20.0	16.3	16.3	16.3
Short-term financial liabilities	6.8	7.0	9.8	125.8	5.9	5.9	5.7
Short-term provisions	1.5	7.6	5.6	1.2	3.8	3.8	3.8
Total liabilities	221.2	291.6	301.3	393.3	261.4	257.9	253.7
Total equity and liab.	624.0	672.4	697.6	800.5	702.7	710.6	721.6

Source: Company data, Research Dynamics

Cash flow statement

CHF mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net profit for the period	(33.1)	(7.7)	16.2	42.3	48.5	22.2	26.7
Non-cash adjustments:	35.3	33.9	(1.5)	26.3	31.2	31.5	31.4
Change in CA and CL:							
(Increase)/ decrease in inventories	8.4	(13.1)	13.6	(8.6)	(10.2)	6.8	(0.1)
Decrease in trade accounts receivable	8.1	(0.5)	(7.7)	5.0	(1.3)	3.0	(1.4)
Increase/ (decrease) in trade accounts payable	(6.8)	1.6	15.8	(1.1)	(2.8)	1.5	(0.3)
Other changes in working capital	11.5	7.7	(4.2)	0.4	(4.3)	-	-
Cash flows from operating activities	23.3	21.9	32.2	64.3	61.0	65.1	56.4
Investments in tangible fixed assets	(21.9)	(20.7)	(32.3)	(22.3)	(21.9)	(29.4)	(31.1)
Disposals of tangible fixed assets	1.6	20.5	15.4	6.3	0.8	-	-
Investments in intangible assets	(1.6)	(1.2)	(2.4)	(2.2)	(1.0)	(1.1)	(1.1)
Investments in business activities	-	(18.5)	-	(27.9)	-	-	-
Repayment of long-term financial receivables	-	-	-	-	100.9	-	-
Cash flow generated (used) in investment activities	(22.0)	(19.9)	(19.3)	(46.0)	78.9	(30.5)	(32.2)
Increase/ (Decrease) in short-term financial liabilities and receivables	(15.3)	0.1	1.0	(4.3)	(123.4)	(0.0)	(0.2)
Increase/ (Decrease) in long-term financial liabilities	(1.1)	19.0	(0.6)	(3.0)	(1.1)	(5.0)	(3.8)
Increase in other long-term liabilities	(0.1)	(0.4)	0.2	2.1	(0.2)	-	-
Dividends to shareholders	(3.9)	(3.6)	(3.9)	(3.9)	(10.9)	(10.8)	(11.5)
Cash flow generated (used) in financing	(20.4)	15.2	(3.3)	(9.1)	(135.6)	(15.8)	(15.5)
Exchange (losses)/gains	2.3	0.1	0.2	(0.3)	(0.2)	-	-
Net change in cash	(16.7)	17.2	9.8	8.9	4.1	18.8	8.7
Opening cash balance	69.9	53.1	70.3	80.1	89.0	93.1	111.9
Closing cash balance	53.1	70.3	80.1	89.0	93.1	111.9	120.6

Source: Company data, Research Dynamics

Key ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Growth Ratios							
Sales Growth	(15%)	4%	8%	14%	(2%)	(4%)	2%
Chemistry division	4%	11%	9%	5%	(2%)	1%	2%
Paper division	(21%)	(1%)	7%	14%	(3%)	(10%)	0%
Packaging division	(7%)	9%	9%	17%	0%	5%	6%
Operating Profit Growth	NM	NM	(51%)	NM	10%	(53%)	18%
Net Income Growth	NM	NM	NM	165%	14%	(54%)	20%
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(5%)	1%	1%	10%	11%	5%	6%
Chemistry division	(3%)	2%	5%	8%	6%	6%	7%
Paper division	(11%)	(2%)	(5%)	10%	12%	1%	2%
Packaging division	5%	8%	7%	10%	11%	12%	12%
EBITDA Margin %	3%	8%	7%	16%	17%	12%	12%
Net Margin (%)	(8%)	(2%)	3%	8%	9%	4%	5%
Return Ratios							
Profit Margin	(8%)	(2%)	3%	8%	9%	4%	5%
Asset Turnover	0.6x	0.7x	0.7x	0.7x	0.7x	0.7x	0.7x
Financial Leverage	1.6x	1.7x	1.8x	1.9x	1.8x	1.6x	1.6x
Dupont ROE (%)	(8%)	(2%)	4%	11%	11%	5%	6%
ROCE (%)	(4%)	1%	1%	10%	10%	5%	5%
ROA (%)	(5%)	(1%)	2%	6%	6%	3%	4%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.4x	0.4x	0.6x	0.3x	0.3x	0.2x
Net Debt - Equity Ratio	0.2x	0.2x	0.2x	0.4x	0.1x	0.0x	(0.0x)
Interest Coverage	(5.5x)	1.4x	0.7x	11.8x	9.1x	9.8x	12.0x
Liquidity Ratios							
Current Ratio	2.6x	2.4x	2.3x	1.6x	2.8x	2.8x	2.9x
Quick Ratio	1.9x	1.7x	1.7x	1.3x	2.0x	2.1x	2.2x
Valuation Ratios							
EV/EBITDA	25.8x	13.3x	14.6x	5.9x	5.6x	8.5x	7.8x
P/E	NM	NM	28.8x	10.9x	9.5x	20.7x	17.3x

Source: Company data, Research Dynamics

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