

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Investor Day update

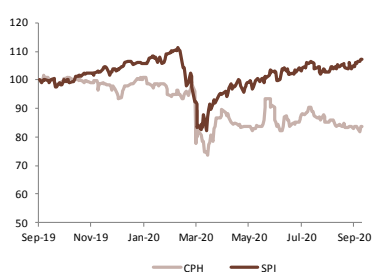
17 Sep 2020

Company Data

Price:	CHF 67.0
Market Cap:	CHF 402.0mn
Free Float:	41.2%
No. of shares:	6.0mn
Avg. traded volume (30 day):	391
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2018	2019	2020E	2021E
Sales	533.5	524.7	447.8	458.8
EBITDA %	15.6%	16.8%	11.4%	11.1%
EBIT %	9.7%	10.8%	4.5%	4.4%
Net Margin %	7.9%	9.2%	6.1%	3.6%
Basic EPS	7.05	8.06	4.58	2.72
Diluted EPS	7.05	8.06	4.58	2.72
DPS	1.80	1.80	1.80	1.80
Equity Ratio %	50.7%	62.6%	65.6%	66.0%
Capex	(18.2)	(22.0)	(20.9)	(31.4)
P/Sales	0.8x	0.8x	0.9x	0.9x
P/E	9.5x	8.3x	14.6x	24.6x
EV/EBITDA	5.4x	5.1x	8.9x	8.8x

Source: Research Dynamics, Company data

Next Events

Baader Helvea Swiss Equity Conference	14/15 Jan 2021
FY2020 Results	23 Feb 2021

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At the forefront of the sustainability

CPH hosted an annual investor day event and the key theme that emerged was the company's ability to leverage its competitive positioning in the Paper Division to mitigate the prevailing weak market for the print paper. Moreover, the group also showcased that reducing carbon footprint remains top on their agenda. We also took a tour of the Perlen Papier plant, which induced confidence in us about the group's preparedness about achieving carbon neutrality and to tide over the challenging market conditions.

Strategy 2020-2024 – Implementation progressing well

The strategy's objectives encompass balanced net sales composition between the three divisions, a higher share of net sales from outside Europe, and reducing exposure to the Swiss Franc to minimize currency fluctuations. Last month the company announced that the Packaging Division acquired the remaining 40% shares of Perlen Packaging Anápolis, Brazil, and invested a higher single-digit millions to expand its Brazilian production facility to provide a new PVdC film coating plant with a capacity of 6.500 tons a year which should commence its operations in the first quarter of 2022. In addition, the Perlen Packaging is providing a loan to its Brazilian business partner for the construction of a new mono PVC film manufacturing facility, with which the division will be able to cover the full supply chain with the local Brazilian production facilities, from mono films to coated blister pack films.

Paper Division well placed to mitigate challenges

CPH's Paper Division has been in operations since 1873 under the Perlen Papier name and is Switzerland's only producer of newsprint and magazine paper and the country's biggest wastepaper recycler. It operates two paper machines with a combined annual production capacity of 565,000 tons of newsprint and magazine paper. To manufacture the newsprint paper, it uses the PM7 machine since 2010, which is the most advanced machine in Europe.

The newspaper and magazine paper market has been bearing the brunt of twin challenges for many years. On one hand, the growing importance of digital channels has led to the falling consumption of print media by -8 to 10% a year; on the other hand, the excess capacities have had an adverse impact on the realizations. However, the company responded to market developments with key strategic thrusts. Through efficient structures and processes, it emerged as the most cost-efficient player in the region. Over 2009-2019, Perlen Papier has been able to reduce its variable costs by 32% and fixed costs by 49%. Over the same period, the cumulative productivity gains were +72%. With its direct customer contacts and efficient customer services, Perlen has been able to increase its market share in Western Europe from 2.5% to about 7%. Moreover, Perlen's focus on differentiation through modified and eco-efficient products also helped. All these measures have helped the division consistently deliver an EBITDA margin (for Perlen) higher than the competitors.

The lynchpin in reducing carbon footprint and sustainable production

Perlen Papier maintains a wastepaper sorting facility in Utzenstorf and is Switzerland's only paper recycler. The raw materials include 500,000 tons a year of recovered paper (75% of which comes from Swiss domestic sources), 100,000 tons a year of wood (85% from Swiss), and 2,000 tons a year of pulp. Perlen also founded the 'APS' brand in 2018 for the procurement, sorting, and trading of wastepaper. Moreover, in 2012, the Paper Division helped establish the Renergia waste incinerator facility in Central Switzerland, which is situated close to the Perlen paper factory. The Paper Division uses steam from the Renergia facility to dry its paper rolls, saving 30mn liters of heating oil and substantially reducing its carbon emissions by 90,000 tons. The energy generated from 250,000 tons of waste disposal is helping to generate 160 GWh of electricity, which is enough for 38,000 homes. Having consistently reduced its fossil CO₂ emissions by 87% since 2013, Perlen Papier now has a carbon footprint that is 75% smaller than those of its European competitors. Last year, its Perlen factory emitted just 19kgs of CO₂ per ton of paper produced that was 16 times lower than the emission targets agreed with the Swiss Federal Office for the Environment. Perlen has been able to achieve almost carbon-neutral paper production by having short delivery journeys that minimized its carbon emissions on the transport front.

Domestically produced paper essential for sustainability

Interestingly, the proportion of the finished paper used in Switzerland imported from abroad rose 21-50% between 2017-19. The company is making efforts to keep populations and publishing houses informed that it makes less sense to export wastepaper that has been recovered in Switzerland to neighboring countries when it could easily be recycled domestically into new paper products. Moreover, the Covid outbreak has shown the importance of having raw materials such as recycled papers close to the operations, which would establish a sustainable and reliable domestic manufacturing chain.

Digital media lacks print in sustainability

The advent of technological changes has resulted in the massive adoption of the digital information channels that resulted in a gradual decline in demand for newsprints. It is pertinent to note that paper publication has superior ecological credentials as compared to digital channels. Based on the study conducted by the Institute for Further Studies and Technology Assessment (IZT), over the entire production cycle reading news online has a significant adverse impact on the environment than a printed newspaper. This is because far more energy gets consumed in storing and transmitting the data, and in manufacturing such devices. Also, the study found that paper is relatively softer on the environment.

Outlook and full year guidance

The year 2020 is strongly impacted by the corona crisis and management sounded caution over the pace of the economic recovery. The group expects full-year net sales and the operating result to decline significantly, whereas the net result is expected to be in the low-double digit millions.

Paper: Demand for magazine and newsprint paper is likely to recover slightly in the second half of 2020. The company expects continued pressure on paper prices due to existing over-capacities in the market. However, management sees market consolidation inevitable as marginal or inefficient players would find it difficult to survive the weak operating environment. It is estimated that close to ~1.5mn capacity may shut in the short term thus paving the way for stability in prices.

While this is positive over the mid to long term, management expects 2020 net sales to be lower than the 2019 level and EBIT to fall in negative territory.

Packaging: As the pandemic subsides gradually, management expects the demand for blister pack films to return to more normal levels. Additionally, management plans to further increase the share of products that are in the high barrier film segment. The company also planned the construction of a coating plant in Brazil, which would give access to high growth emerging markets like Brazil.

In 2020, the company expects a substantial increase in net sales and is also confident of an improved EBIT result as compared to the previous year.

Chemistry: The company expects the size and pace of the global economic growth crucial for revival in investment demand. The company has undertaken rigorous cost control measures to tide over the crisis.

In 2020, the company expects net sales to be lower and EBIT margin to be broadly in-line with 2019 levels.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 87.2 per share is the same as our previous target price (CHF 87.2), implying an upside of 30.2% 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 analyze the relative valuation of the Group. CPH currently trades at a P/S multiple of 1.3x (FY2020E), a ~33% discount to the weighted average multiple of division peers.

We remain encouraged by the management's focus on keeping the operations competitive even during the challenging times like we are facing at present. Most importantly, while doing so the group has not taken the focus off the commitment towards environmental sustainability, which has never been so important as the way it today is as the world goes through rapid climate changes. That said, in the short-term, we expect the uncertainty to continue in 2H2020 as economic activity is likely to pick up only gradually amidst the ongoing coronavirus pandemic. However, in the medium term, as business activity picks up steam, we expect the valuation discount to narrow and the stock to witness a revaluation.

We opine that the company's growth prospects in key markets, improved operating efficiencies from new production facilities, and expansion of the Packaging and Chemistry Divisions should lead to a valuation improvement. The Paper Division should benefit from the local market, cost leadership, cost-saving initiatives, advanced technology and continued operational improvements, although the business environment continues to remain challenging due to over-capacities and decreasing demand for newsprint paper. However, over time the tough operating environment may push marginal paper producers out of business which should lead to reduced capacities and aid recovery in paper prices. Moreover, we expect the group-level cost optimization initiatives to offer support to the company's stock price.

Glimpses of Perlen Papier plant tour:

Figure 1: State of the art PM7 machine



Source: Research Dynamics

Figure 2: Waster paper being transported for recycling



Source: Research Dynamics

Exhibit 1: 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	7.6x	8.6x	8.1x	0.9x	0.9x	0.9x	13.4x	19.1x	23.2x
Paper peers:									
Holmen	NA	18.3x	16.9x	NA	3.4x	3.2x	NA	32.4x	29.1x
Stora Enso	8.3x	10.9x	9.2x	1.0x	1.2x	1.2x	13.4x	28.0x	17.5x
Altri	7.2x	10.3x	7.7x	1.7x	1.3x	1.2x	10.2x	28.2x	12.3x
Metsä Board	11.4x	9.8x	9.1x	1.2x	1.3x	1.3x	14.2x	18.3x	15.8x
UPM-Kymmene	8.5x	11.0x	9.6x	1.4x	1.6x	1.6x	13.0x	20.5x	17.1x
Norkse Scogindustrier	11.5x	NA	NA	0.0x	NA	NA	NA	NA	NA
James Cropper	16.4x	NA	0.1x	1.2x	NA	0.0x	34.7x	NA	NA
OJI Holdings	8.4x	NM	NM	0.4x	0.3x	0.3x	13.4x	10.9x	8.4x
Chemistry peers:									
Honeywell Int.	13.2x	16.7x	15.2x	2.9x	3.6x	3.4x	21.0x	23.9x	21.0x
Clariant	11.3x	NA	NA	1.4x	NA	NA	33.9x	NA	NA
Arkema	6.2x	8.2x	7.3x	0.8x	1.0x	0.9x	12.8x	18.2x	14.0x
WR Grace & Co.	14.4x	10.4x	8.4x	2.4x	1.6x	1.5x	30.7x	15.2x	10.7x
Packaging peers:									
Meadwestvaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	10.5x	0.1x	0.1x	0.7x	0.0x	0.0x	16.9x	14.2x	11.6x
Gerresheimer	10.8x	13.1x	11.8x	1.6x	2.1x	2.0x	24.4x	24.9x	20.2x
West Pharmaceutical Services	26.2x	42.5x	37.1x	5.7x	10.0x	9.2x	44.0x	65.9x	60.2x
Convertidora Industrial	4.9x	4.2x	3.7x	0.2x	0.2x	0.2x	42.3x	NA	NA
PSB Industries	4.8x	32.2x	4.2x	0.3x	0.3x	0.3x	15.8x	-3.1x	71.3x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bicare Ltd	42.3x	NA	NA	0.0x	NA	NA	NA	NA	NA
Median	10.8x	10.9x	8.8x	1.2x	1.3x	1.2x	16.9x	20.5x	17.1x
High	42.3x	42.5x	37.1x	5.7x	10.0x	9.2x	44.0x	65.9x	71.3x
Low	4.8x	0.1x	0.1x	0.0x	0.0x	0.0x	10.2x	-3.1x	8.4x
Premium (disc) to peers	(29%)	(21%)	(7%)	(26%)	(33%)	(28%)	(21%)	(7%)	36%

Source: Thomson Eikon (as on 16 Sep 2020)

Exhibit 2: 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	9.7x	11.5x	7.6x	1.1x	1.1x	1.0x	18.5x	22.0x	23.0x
CPH	7.6x	8.6x	8.1x	0.9x	0.9x	0.9x	13.4x	19.1x	23.2x
Premium (disc) to peers	(22%)	(25%)	7%	(20%)	(18%)	(11%)	NM	(13%)	1%

Source: Thomson Eikon (as on 16 Sep 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	72	74
Paper sales	248	246	264	301	293	215	215
Packaging sales	110	119	130	153	153	161	170
Net Sales	420	435	470	534	525	448	459
Cost of Sales	(285)	(267)	(309)	(311)	(298)	(262)	(275)
Gross profit	135	168	161	222	227	186	184
Personnel cost	(86)	(89)	(84)	(92)	(93)	(93)	(93)
Outsourced maintenance/repairs	(16)	(18)	(17)	(19)	(20)	(17)	(16)
Other operating expense	(21)	(25)	(26)	(28)	(26)	(25)	(24)
Total operating costs	(123)	(131)	(127)	(139)	(139)	(135)	(132)
EBITDA	12	37	34	83	88	51	51
Depreciation	(34)	(31)	(30)	(30)	(30)	(30)	(30)
Amortisation	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	(22)	6	3	52	57	20	20
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	(22)	6	3	52	57	20	20
Finance costs	(13)	(6)	(8)	(7)	(6)	(4)	(4)
Finance income	1	1	2	1	0	0	0
Total financial income (expenses)	(12)	(5)	(7)	(6)	(6)	(4)	(4)
Profit before taxes (before exceptional items)	(34)	1	(4)	46	51	16	16
Non-operating items	2	(4)	23	0	1	15	4
Income taxes	(1)	(4)	(3)	(3)	(3)	(3)	(4)
Profit attributable to the parent	(33)	(8)	16	42	48	27	16
Basic EPS	(5.5)	(1.3)	2.7	7.1	8.1	4.6	2.7
Diluted EPS	(5.5)	(1.3)	2.7	7.1	8.1	4.6	2.7
DPS	0.6	0.7	0.7	1.8	1.8	1.8	1.8

Source: Research Dynamics, Company data

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	356.5	357.2
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	426.1	426.8
Current assets							
Inventories	54.5	68.9	59.2	69.6	78.5	75.8	76.3
Trade accounts receivable	66.4	69.1	77.8	72.1	72.4	70.0	74.5
Other receivables	8.0	8.9	18.0	13.1	14.0	12.0	12.0
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	102.7	101.2
Total assets	624.0	672.4	697.6	800.5	702.7	695.2	699.5
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	12.0	12.0	12.0	12.0
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	412.7	429.4
Net result for the year	(33.1)	(7.9)	16.0	42.3	48.3	27.5	16.3
Non-current liabilities							
Long-term financial liabilities	126.5	145.6	143.5	120.5	116.8	110.8	107.0
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	35.5	35.5
Current liabilities							
Trade accounts payable	46.7	53.1	69.5	69.7	66.3	60.1	62.8
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	5.8	5.6
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	237.3	236.0
Total equity and liab.	624.0	672.4	697.6	800.5	702.7	695.2	699.5

Source: Research Dynamics, Company data

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	27.5	16.3
Non-cash adjustments:	35.3	33.9	(1.5)	26.3	31.2	30.8	30.7
Change in CA and CL:							
(Increase)/ decrease in inventories	8.4	(13.1)	13.6	(8.6)	(10.2)	2.8	(0.5)
Decrease in trade accounts receivable	8.1	(0.5)	(7.7)	5.0	(1.3)	2.3	(4.5)
Increase/ (decrease) in trade accounts payable	(6.8)	1.6	15.8	(1.1)	(2.8)	(6.1)	2.7
Other changes in working capital	11.5	7.7	(4.2)	0.4	(4.3)	(10.0)	-
Cash flows from operating activities	23.3	21.9	32.2	64.3	61.0	47.3	44.7
Investments in tangible fixed assets	(21.9)	(20.7)	(32.3)	(22.3)	(21.9)	(19.8)	(30.3)
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	(20.9)	(31.4)
Increase/ (Decrease) in short-term financial liabilities and receivables	(15.3)	0.1	1.0	(4.3)	(123.4)	(0.1)	(0.2)
Increase/ (Decrease) in long-term financial liabilities	(1.1)	19.0	(0.6)	(3.0)	(1.1)	(5.9)	(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)	(10.8)
Cash flow generated (used) in financing	(20.4)	15.2	(3.3)	(9.1)	(135.6)	(16.8)	(14.8)
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	9.6	(1.5)
Opening cash balance	69.9	53.1	70.3	80.1	89.0	93.1	102.7
Closing cash balance	53.1	70.3	80.1	89.0	93.1	102.7	101.2

Source: Research Dynamics, Company data

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Growth Ratios							
Sales Growth	(15%)	4%	8%	14%	(2%)	(15%)	2%
Chemistry division	4%	11%	9%	5%	(2%)	(8%)	3%
Paper division	(21%)	(1%)	7%	14%	(3%)	(27%)	0%
Packaging division	(7%)	9%	9%	17%	0%	5%	6%
Operating Profit Growth	NM	NM	(51%)	NM	10%	(64%)	1%
Net Income Growth	NM	NM	NM	165%	14%	(43%)	(41%)
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(5%)	1%	1%	10%	11%	5%	4%
Chemistry division	(3%)	2%	5%	8%	6%	6%	6%
Paper division	(11%)	(2%)	(5%)	10%	12%	(2%)	1%
Packaging division	5%	8%	7%	10%	11%	12%	12%
EBITDA Margin %	3%	8%	7%	16%	17%	11%	11%
Net Margin (%)	(8%)	(2%)	3%	8%	9%	6%	4%
Return Ratios							
Profit Margin	(8%)	(2%)	3%	8%	9%	6%	4%
Asset Turnover	0.6x	0.7x	0.7x	0.7x	0.7x	0.6x	0.7x
Financial Leverage	1.6x	1.7x	1.8x	1.9x	1.8x	1.6x	1.5x
Dupont ROE (%)	(8%)	(2%)	4%	11%	11%	6%	4%
ROCE (%)	(4%)	1%	1%	10%	10%	4%	4%
ROA (%)	(5%)	(1%)	2%	6%	6%	4%	2%
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	4.6x	5.1x
Liquidity Ratios							
Current Ratio	2.6x	2.4x	2.3x	1.6x	2.8x	3.0x	3.0x
Quick Ratio	1.9x	1.7x	1.7x	1.3x	2.0x	2.2x	2.1x
Valuation Ratios							
EV/EBITDA	25.8x	12.2x	13.4x	5.4x	5.1x	8.9x	8.8x
P/E	NM	NM	25.2x	9.5x	8.3x	14.6x	24.6x
P/B	0.6x	1.1x	1.0x	1.0x	0.9x	0.9x	0.9x

Source: Research Dynamics, Bloomberg, Company data

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