CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Event update

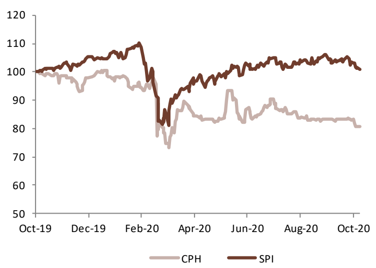
27 Oct 2020

Company Data

Price:	CHF 65.0
Market Cap:	CHF 390.0mn
Free Float:	41.6%
No. of shares:	6.0mn
Avg. traded volume (30 day):	275
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	433.4	458.8
EBITDA %	15.6%	16.8%	11.7%	11.1%
EBIT %	9.7%	10.8%	4.6%	4.4%
Net Margin %	7.9%	9.2%	9.3%	3.6%
Basic EPS	7.05	8.06	6.69	2.72
Diluted EPS	7.05	8.06	6.69	2.72
DPS	1.80	1.80	1.80	1.80
Equity Ratio %	50.7%	62.6%	66.5%	66.6%
Capex	(18.2)	(22.0)	(20.9)	(31.4)
P/Sales	0.7x	0.8x	0.9x	0.9x
P/E	9.4x	8.2x	9.9x	24.4x
EV/EBITDA	5.4x	5.1x	8.8x	8.8x

Source: Research Dynamics, Company data

Next Events

ZKB Equity Conference 2020 in Zurich	4 Nov 2020
Baader Helvea Swiss equities conference in Bad Ragaz	14 Jan 2021

Analysts

Doris Rudischhauser
dru@researchdynamics.ch

Alexandre Müller
amu@researchdynamics.ch

Tel: +41 43 268 3232

www.researchdynamics.ch

Adjustments to FY20 earnings outlook

CPH Group to benefit from significant one-off effects

CHP Group yesterday announced its plans to transfer some of its Perlen site's land assets to a newly to be founded real estate subsidiary, Perlen Papier Immobilien AG. With the completion of this transaction, the group will be able to clearly distinguish between its operating and real estate activities. This transaction, which is to be executed at market values, will allow the CHP Group to offset CHF 97mn of tax losses carried forward from previous years, resulting in an expected deferred tax income of ~CHF 12mn. This amount, along with release of provisions for environmental protection measures from the Uetikon site, is expected to generate a non-recurring income totalling ~CHF 26mn for FY20e. Thus, the CPH Group now expects to report net earnings of ~CHF 40mn for FY20e as against the low-double-digit millions guidance provided earlier.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 87.9 per share comes out the same as our previous target price (CHF 87.9), implying an upside of 35% from the previous closing price. 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 0.8x (FY2021E), a significant 35% discount to the weighted average multiple of division peers.

We remain encouraged by management's focus on diversifying the offerings towards more remunerative businesses and regions. That said, in the short-term, we expect uncertainties to continue during the reminder of 2H2020 and into 2021 as economic activity is likely to pick up only gradually. Specifically, as Covid-19 has once again started resurfacing in major European countries, the Paper division may face unexpected demand pressure in 4Q20 due to potential restrictions on economic activities. Thus, the division may be affected by similar challenges than as of mid-March and into 2Q20 when demand for newsprint and magazine paper significantly. Accordingly, we have lowered our FY20e revenue forecast for the Paper division. However, in the medium to long term, as business activity is expected to pick up steam, we expect the valuation discount to narrow and the stock to witness a revaluation.

We see multiple factors driving the improvement in valuation, which includes growth prospects in key markets, operating efficiency improvements from new production facilities, and expansion of the Packaging and Chemistry divisions. The Paper division, which will be impacted in the short-term due to the weak economic environment in Europe, should benefit from local market, cost leadership, cost saving initiatives, advanced technology and continued operational improvements in the long-term. The business environment continues to remain challenging due to overcapacities and decreasing demand for newsprint paper. However, over time, tough market conditions may push marginal paper producers out of business which should lead to reduced capacities and aid a recovery in paper prices thereby benefiting efficient and leading market players like CPH. Moreover, we expect that the group-level efficiency optimization initiatives – together with the further strategy implementation of increasing presence in growth markets outside of CHF denominated cost structures and paper exposure – should offer support and upside to the company's stock price.

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	8.4x	8.0x	0.9x	0.9x	0.8x	13.3x	16.4x	22.4x
Paper peers:									
Holmen	NA	17.5x	16.7x	NA	3.5x	3.2x	NA	30.6x	28.9x
Stora Enso	8.4x	10.1x	8.5x	1.0x	1.2x	1.1x	13.3x	24.7x	15.9x
Altri	7.1x	11.6x	10.1x	1.7x	1.1x	1.1x	10.1x	96.7x	30.8x
Metsa Board	11.2x	9.2x	9.0x	1.2x	1.3x	1.3x	14.1x	16.7x	15.0x
UPM-Kymmene	8.4x	10.6x	9.2x	1.4x	1.6x	1.5x	12.9x	19.7x	16.4x
Norkse Scogindustrier	11.7x	NA	NA	NM	NA	NA	NA	NA	NA
James Cropper	15.8x	NA	NM	1.2x	NA	NA	34.4x	NA	NA
OJI Holdings	8.2x	NM	NM	0.4x	0.3x	0.3x	13.2x	10.3x	8.1x
Chemistry peers:									
Honeywell Int.	13.1x	17.1x	15.5x	2.9x	3.7x	3.5x	21.0x	24.7x	21.7x
Clariant	11.4x	NA	NA	1.4x	NA	NA	33.9x	NA	NA
Arkema	6.1x	7.6x	6.8x	0.8x	0.9x	0.8x	12.8x	16.8x	12.8x
WR Grace & Co.	14.2x	11.5x	9.0x	2.3x	1.8x	1.7x	30.7x	17.8x	12.0x
Packaging peers:									
Meadvestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	10.3x	NM	NM	0.7x	NM	NM	16.8x	14.2x	11.6x
Gerresheimer	10.9x	12.0x	11.0x	1.6x	1.9x	1.8x	24.2x	22.1x	18.7x
West Pharmaceutical Services	27.0x	39.7x	34.8x	5.9x	9.8x	8.9x	43.6x	62.4x	56.8x
Convertidora Industrial	4.8x	4.2x	3.7x	0.2x	0.2x	0.2x	41.9x	NA	NA
PSB Industries	4.8x	28.8x	4.6x	0.3x	0.3x	0.3x	15.6x	NM	NM
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	42.2x	NA	NA	NM	NA	NA	NA	NA	NA
Median	10.9x	11.5x	9.1x	1.2x	1.3x	1.3x	16.8x	20.9x	16.2x
High	42.2x	39.7x	34.8x	5.9x	9.8x	8.9x	43.6x	96.7x	56.8x
Low	4.8x	4.2x	3.7x	0.2x	0.2x	0.2x	10.1x	10.3x	8.1x
Premium (disc) to peers	(30%)	(27%)	(13%)	(26%)	(36%)	(35%)	(21%)	(22%)	39%

Source: Thomson Eikon (as on 26 Oct 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	9.6x	13.6x	8.8x	1.1x	1.3x	1.2x	18.3x	21.5x	16.4x
CPH	7.6x	8.4x	8.0x	0.9x	0.9x	0.8x	13.3x	16.4x	22.4x
Premium (disc) to peers	(21%)	(38%)	(9%)	(23%)	(33%)	(30%)	NM	(24%)	36%

Source: Thomson Eikon (as on 26 Oct 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	200	215
Packaging sales	110	119	130	153	153	161	170
Net Sales	**420**	**435**	**470**	**534**	**525**	**433**	**459**
Cost of Sales	(285)	(267)	(309)	(311)	(298)	(248)	(275)
Gross profit	**135**	**168**	**161**	**222**	**227**	**185**	**184**
Personnel cost	(86)	(89)	(84)	(92)	(93)	(94)	(93)
Outsourced maintenance/repairs	(16)	(18)	(17)	(19)	(20)	(16)	(16)
Other operating expense	(21)	(25)	(26)	(28)	(26)	(24)	(24)
Total operating costs	**(123)**	**(131)**	**(127)**	**(139)**	**(139)**	**(134)**	**(132)**
EBITDA	**12**	**37**	**34**	**83**	**88**	**51**	**51**
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**	**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	16	4
Income taxes	(1)	(4)	(3)	(3)	(3)	9	(4)
Profit attributable to the parent	**(33)**	**(8)**	**16**	**42**	**48**	**40**	**16**
Basic EPS	(5.5)	(1.3)	2.7	7.1	8.1	6.7	2.7
Diluted EPS	(5.5)	(1.3)	2.7	7.1	8.1	6.7	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	72.8	76.3
Trade accounts receivable	66.4	69.1	77.8	72.1	72.4	67.8	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	20.6	20.6
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	106.2	101.9
Total assets	**624.0**	**672.4**	**697.6**	**800.5**	**702.7**	**705.6**	**712.2**
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	442.1
Net result for the year	(33.1)	(7.9)	16.0	42.3	48.3	40.1	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	57.8	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**	**234.9**	**236.0**
Total equity and liab.	**624.0**	**672.4**	**697.6**	**800.5**	**702.7**	**705.6**	**712.2**

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	40.1	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)	5.7	(3.5)
Decrease in trade accounts receivable	8.1	(0.5)	(7.7)	5.0	(1.3)	4.6	(6.7)
Increase/ (decrease) in trade accounts payable	(6.8)	1.6	15.8	(1.1)	(2.8)	(8.5)	5.0
Other changes in working capital	11.5	7.7	(4.2)	0.4	(4.3)	(22.0)	-
Cash flows from operating activities	**23.3**	**21.9**	**32.2**	**64.3**	**61.0**	**50.8**	**41.9**
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**	**13.1**	**(4.3)**
Opening cash balance	69.9	53.1	70.3	80.1	89.0	93.1	106.2
Closing cash balance	**53.1**	**70.3**	**80.1**	**89.0**	**93.1**	**106.2**	**101.9**

Source: Research Dynamics, Company data

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Growth Ratios							
Sales Growth	(15%)	4%	8%	14%	(2%)	(17%)	6%
Chemistry division	4%	11%	9%	5%	(2%)	(8%)	3%
Paper division	(21%)	(1%)	7%	14%	(3%)	(32%)	7%
Packaging division	(7%)	9%	9%	17%	0%	5%	6%
Operating Profit Growth	NM	NM	(51%)	NM	10%	(65%)	2%
Net Income Growth	NM	NM	NM	165%	14%	(17%)	(59%)
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(5%)	1%	1%	10%	11%	5%	4%
Chemistry division	(3%)	2%	5%	8%	6%	5%	4%
Paper division	(11%)	(2%)	(5%)	10%	12%	(2%)	(2%)
Packaging division	5%	8%	7%	10%	11%	13%	13%
EBITDA Margin %	3%	8%	7%	16%	17%	12%	11%
Net Margin (%)	(8%)	(2%)	3%	8%	9%	9%	4%
Return Ratios							
Profit Margin	(8%)	(2%)	3%	8%	9%	9%	4%
Asset Turnover	0.6x	0.7x	0.7x	0.7x	0.7x	0.6x	0.6x
Financial Leverage	1.6x	1.7x	1.8x	1.9x	1.8x	1.5x	1.5x
Dupont ROE (%)	(8%)	(2%)	4%	11%	11%	9%	3%
ROCE (%)	(4%)	1%	1%	10%	10%	3%	3%
ROA (%)	(5%)	(1%)	2%	6%	6%	6%	2%
Leverage Ratios							
Debt - Equity Ratio	0.3x	0.4x	0.4x	0.6x	0.3x	0.2x	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	4.5x	5.1x
Liquidity Ratios							
Current Ratio	2.6x	2.4x	2.3x	1.6x	2.8x	3.2x	3.1x
Quick Ratio	1.9x	1.7x	1.7x	1.3x	2.0x	2.4x	2.3x
Valuation Ratios							
EV/EBITDA	25.8x	12.1x	13.2x	5.4x	5.1x	8.8x	8.8x
P/E	NM	NM	24.9x	9.4x	8.2x	9.9x	24.4x

Source: Research Dynamics, Bloomberg, Company data

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Dynamics Group AG

Utoquai 43
CH-8008 Zürich
Tel. +41 43 268 32 32
Fax +41 43 268 32 39

Zeughausgasse 22
CH-3011 Bern
Tel. +41 31 312 28 41
Fax +41 31 312 28 49

21, rue des Caroubiers
CH-1227 Carouge/GE
Tel. +41 22 308 62 20
Fax +41 22 308 62 36

contact@dynamicsgroup.ch

www.dynamicsgroup.ch