

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Event update

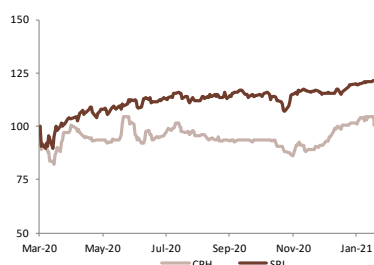
25 Jan 2021

Company Data

Price:	CHF 71.80
Market Cap:	CHF 430.8mn
Free Float:	41.6%
No. of shares:	6.0mn
Avg. traded volume (30 day):	277
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	0.8x	0.8x	1.0x	0.9x
P/E	10.2x	8.9x	10.7x	26.4x
EV/EBITDA	5.8x	5.5x	9.4x	9.4x

Source: Research Dynamics, Company data

Next Events

FY2020 Results	23 Feb 2021
AGM	18 Mar 2021

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CPH to merge with Uetikon Industrieholding AG

Higher free float may aid rerating

CPH Chemie + Papier Holding AG (CPH) announced on Friday post market close that it plans to merge with Uetikon Industrieholding AG (Uetikon). Uetikon, which belongs to the group's founding family members, has been the main shareholder of CPH with a stake of around 50%. The transaction would entail the major shareholder to exchange its shares for a commensurate number in CPH shares. After the merger, Uetikon shareholders would become direct shareholders of CPH. The largest representatives of the founding family members, i.e Swiss Industrial Finance AG and the Ella Schnorf Estate, would hold just under one-third of CPH's shares. As a part of the transaction UVB Immobilien Treuhand Perlen AG, which manages CPH Group's non-operating real estate assets, would be also transferred to CPH. The merger transaction is expected to result in an increase in the free float of CPH shares to 62.6%. We believe the increased free float is expected to improve the shares' liquidity and should be viewed favorably by investors. Hence, in our view, the attractiveness of CPH's shares is likely to enhance going forward. CPH will seek shareholders' approval in an Extraordinary General Meeting to be held on 4 June 2021, whereas Uetikon will seek it in an ordinary general meeting on 2 June 2021.

Estimates unchanged

Ahead of CPH's FY 2020 due 23 February 2021, we are leaving our estimates unchanged.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 91.3 per share comes out higher than our previous target price (CHF 87.9), implying an upside of 35% from the previous closing price. We ascribe the higher value as the jump in free float may result in higher liquidity for CPH's shares, which implies a lower discount rate at which future cash flows would be discounted. 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 0.9x (FY2021E), a significant ~50% 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 as economic activity is likely to pick up only gradually. 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 include growth prospects in key markets, operating efficiency improvements from new production facilities, expansion of the Packaging and Chemistry divisions' share in revenue and earnings and improvement in the free float of the company's shares. The Paper division, which will be impacted in the short-term due to the weak economic environment in Europe, should benefit from 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 efficiency optimization initiatives across the group – 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	7.1x	9.2x	7.3x	0.9x	0.9x	0.9x	12.6x	28.1x	16.8x
Paper peers:									
Holmen	NA	19.1x	18.3x	NA	3.8x	3.8x	NA	33.1x	31.0x
Stora Enso	8.7x	10.2x	9.2x	1.0x	1.4x	1.4x	12.4x	19.9x	16.5x
Altri	7.3x	11.7x	9.7x	1.6x	1.6x	1.6x	11.3x	32.1x	20.2x
Metsa Board	11.0x	10.9x	11.1x	1.2x	1.8x	1.7x	14.5x	18.5x	18.1x
UPM-Kymmene	8.5x	11.2x	10.3x	1.4x	1.9x	1.8x	13.8x	20.4x	18.6x
Norskse Scogindustrier	12.1x	NA	NA	0.0x	NA	NA	NA	NA	NA
James Cropper	15.6x	NA	NA	1.2x	0.0x	0.0x	33.7x	60.6x	27.2x
OJI Holdings	8.0x	NM	NM	0.4x	0.4x	0.4x	12.7x	11.9x	10.7x
Chemistry peers:									
Honeywell Int.	13.4x	18.3x	16.7x	3.0x	4.2x	3.9x	21.7x	25.7x	22.6x
Clariant	11.8x	NA	NA	1.4x	NA	NA	35.7x	NA	NA
Arkema	6.1x	7.5x	6.8x	0.8x	0.9x	0.9x	13.3x	15.8x	13.9x
WR Grace & Co.	14.4x	11.0x	10.1x	2.3x	2.2x	2.1x	48.6x	15.9x	14.0x
Packaging peers:									
Meadwestvaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	9.9x	0.1x	NA	0.7x	0.0x	NA	16.6x	11.6x	NA
Gerresheimer	11.2x	11.6x	10.7x	1.7x	1.9x	1.8x	20.3x	19.7x	17.6x
West Pharmaceutical Services	28.6x	36.7x	31.4x	6.3x	9.4x	8.5x	47.4x	59.5x	50.4x
Convertidora Industrial	4.6x	3.5x	NA	0.2x	0.2x	NA	26.9x	NA	NA
PSB Industries	4.9x	7.9x	4.8x	0.3x	0.4x	0.4x	17.3x	-42.4x	22.8x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bicare Ltd	48.1x	NA	NA	0.0x	NA	NA	1.1x	NA	NA
Median	11.0x	11.0x	10.3x	1.2x	1.6x	1.7x	17.0x	19.8x	18.6x
High	48.1x	36.7x	31.4x	6.3x	9.4x	8.5x	48.6x	60.6x	50.4x
Low	4.6x	0.1x	4.8x	0.0x	0.0x	0.0x	1.1x	-42.4x	10.7x
Premium (disc) to peers	(36%)	(16%)	(29%)	(22%)	(42%)	(48%)	(25%)	42%	(9%)

Source: Thomson Eikon (as on 22 Jan 2021)

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	9.8x	10.2x	10.4x	1.1x	1.4x	1.7x	17.2x	18.3x	19.2x
CPH	7.1x	9.2x	7.3x	0.9x	0.9x	0.9x	12.6x	28.1x	16.8x
Premium (disc) to peers	(28%)	(10%)	(30%)	(16%)	(30%)	(47%)	NM	53%	(12%)

Source: Thomson Eikon (as on 22 Jan 2021)

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)	(17)	(16)
Other operating expense	(21)	(25)	(26)	(28)	(26)	(24)	(24)
Total operating costs	(123)	(131)	(127)	(139)	(139)	(135)	(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
Pre. expenses and accrued Inc	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	13.0x	14.2x	5.8x	5.5x	9.4x	9.4x
P/E	NM	NM	27.0x	10.2x	8.9x	10.8x	26.4x

Source: Research Dynamics, Bloomberg, Company data

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