

CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

FY 2020 earnings update

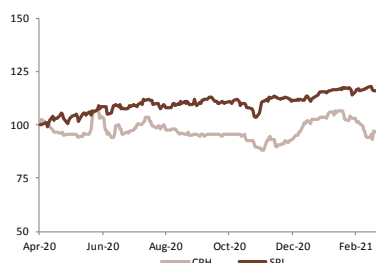
25 Feb 2021

Company Data

Price:	CHF 67.8
Market Cap:	CHF 406.7mn
Free Float:	39.6%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,013
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2019	2020	2021E	2022E
Sales	524.7	445.2	446.1	473.2
EBITDA %	16.8%	12.4%	8.0%	13.6%
EBIT %	10.8%	5.5%	0.8%	6.8%
Net Margin %	9.2%	10.5%	0.2%	4.6%
Basic EPS	8.06	7.82	0.13	3.65
Diluted EPS	8.06	7.82	0.13	3.65
DPS	1.80	1.80	1.80	1.80
Equity Ratio %	62.6%	66.8%	66.3%	66.8%
Capex	(22.0)	(13.5)	(41.2)	(31.4)
P/Sales	0.8x	0.9x	0.9x	0.9x
P/E	8.4x	8.7x	NM	18.6x
EV/EBITDA	5.2x	8.2x	12.7x	7.1x

Source: Research Dynamics, Company data

Next Events

Annual General Meeting	18 Mar 2021
Investor Day	14 June 2021

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Diversification helped tide over adversities

Sound operating performance amidst a harsh environment

CPH reported a sound operating performance for FY2020, which otherwise was marked by the Covid-19 induced economic slump. Group net sales in FY2020 declined by 15.1% YoY to CHF 445.2mn (-10.7% excluding currency impact). The diversified nature of the businesses aided the company to offset significant losses at the Paper division. EBITDA declined by 37% YoY to CHF 55mn. Rigorous cost reduction programs and productivity improvement measures averted a considerable drop in the EBITDA. Lower energy and raw material costs (in the Paper and Packaging Divisions) also helped in mitigating the decline. Group EBIT declined by 56% YoY to CHF 24.7mn (FY2019: CHF 56.6mn), the corresponding margin compressing to 5.5% (10.8%). However, net profit attributable to shareholders declined by only 3.1% to CHF 47.0mn. Reasons for this include an extraordinary income of CHF 12.0mn, which is attributable to the release of provisions for clean-up works required at the Chemistry Division's former Uetikon operating site, non-operating income of 6.8mn resulting from the sale of real estate (CHF 5.2mn) and the release of provision for the Rotholz site (CHF 2.0mn) as well as positive income taxes (CHF +8.1mn) thanks to tax loss-carry forwards (CHF 11.9mn).

Segmental performance

Paper: The Paper Division reported a 28.5% YoY (excluding currency: -25.8%) decline in sales to CHF 209.6mn. The paper division and the industry, in general, have been facing structural headwinds due to the emergence of digital media that has resulted in the declining volume of print and magazine papers. The outbreak of Covid-19 exacerbated the problem further. Faced with weak demand and lower paper prices, the company kept both its paper machines temporarily shut down. Consequently, EBITDA declined by 68.1% to CHF 17.4mn (CHF 54.5mn), whereas EBIT came down to a negative CHF 2.0mn (CHF 34.7mn). It is worth highlighting that while many players were struggling to survive, CPH's Paper Division could hold on due to its cost-efficient paper manufacturing assets like PM7 and coated magazine paper machines.

Packaging: Net sales improved by 5.9% YoY (excluding currency: +10.7%) to CHF 162.3mn (CHF 153.2mn). Unlike the Paper Division, the Packaging Division benefited from the pandemic due to the massive jump in demand for medicinal products for which the company supplies packaging materials. The division that supplies films for blister packs used in the pharmaceuticals' industry experienced record levels of new product orders. Accordingly, EBITDA improved 17.2% YoY to CHF 27.8mn. The segment EBIT also increased to CHF 21.6mn (CHF 17.2mn) and the corresponding margin improved by 210bps YoY to 13.3%. The sizable decline in raw material prices also aided improvement in the segment's profitability. This aside, with an aim to cater to high growth markets like Latin America, the company is investing in a new coating plant in Brazil.

Chemistry: Net sales declined 6.3% YoY (excluding currency impact: -0.7%) to CHF 73.3mn due to weaker demand from key end-user industries like Energy and Industrials. However, incoming orders for molecular sieves employed in the concentration of medical oxygen reached new record levels and partially offset the weakness elsewhere. The division undertook vigorous cost-cutting measures that led to a flat YoY EBITDA of CHF 9.5mn. EBIT however, improved 4.7% YoY to CHF 4.6mn, and the corresponding margin expanded to 6.3% (5.6%).

Cautious outlook for 2021

The world economy is expected to rebound in 2021, however, the economic revival may have a varying degree of impact on each division and specifically demand-supply equation should dictate the fortunes in our view. The management too has provided a cautious outlook for FY2021e that primarily reflects weakness surrounding the Paper Division.

Paper: Falling demand for newsprint and magazine paper coupled with excess capacity in Europe is expected to keep paper price under pressure. The division is also likely to face cost pressure from higher recycled paper prices. Accordingly, the division's net sales are expected to be somewhat close to the 2020 level, but EBIT is expected to be negative.

Packaging: As the pandemic subsides gradually, management expects the demand for blister pack films to return to more normal levels. Additionally, the management plans to increase the share of products that are in the high barrier film segment. Thus, for FY2021, the company expects the division's net sales and EBIT to remain broadly at 2020 levels.

Chemistry: The company expects the size and pace of the global economic growth to dictate the business trends in the Chemistry Division. The division is expected to clock slightly higher net sales and the corresponding EBIT improvement.

Group: Group net sales are expected to increase slightly, while EBIT is expected to amount to single-digit figure.

Other Highlights

CPH to acquire Uetikon Industrieholding: CPH plans to merge with Uetikon Industrieholding AG (Uetikon) as of beginning of June. Uetikon Industrieholding, 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 Industrieholding shareholders would become direct shareholders of CPH. We believe the increased free float resulting from this transaction should improve the shares' liquidity and thus 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 Industrieholding will seek it in an ordinary general meeting on 2 June 2021.

Sustainability offerings: The Paper Division is at the forefront of offering sustainable products. The division is gradually reducing the use of fossil fuel and was able to cut CO₂ emissions by ~90% over 2013-2020. By 2021, it will be the first company globally to offer carbon-neutral paper. This is expected to be a key differentiating factor in driving the demand for its paper products in the medium-to-long term for the company.

Mid-Term Financial Targets: Notwithstanding short-term cautious outlook, management has confirmed the following mid-term financial targets:

- Organic net sales growth of >3% per annum
- EBITDA Margin >12% (from >10% previously)
- Equity ratio >50%
- Liquidity of at-least CHF 30-50mn
- Operating investment of CHF20-25mn per annum

Estimate changes

The recovery in the economic activities bodes well for CPH, but the challenging operating environment in the Paper Division is expected to drag the group's profitability in the short-term. Considering the prevailing operating environment in the Paper Division, we have lowered our FY2021 estimates. The group net sales and EBIT have been revised downwards to CHF 446.1mn and CHF 3.4mn from CHF 458.8mn and CHF 20.4mn, respectively. Similarly, we have lowered the net profit estimate to CHF 0.8mn from CHF 16.3mn.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 91.3 per share, which is same as our previous target price (CHF 91.3), implying an upside of ~35% 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 0.9x (FY2021E), a significant 33% discount to the weighted average multiple of division peers.

The global economy is expected to recover swiftly in 2021e with the IMF forecasting 5.5% growth in 2021. While this bodes well for the business in general, in the short-term, we expect the uncertainty to continue. Specifically, the Paper Division is expected to be under pressure due to an unfavourable operating environment. However, the Packaging and Chemical Divisions are expected to be the key beneficiary of a revival in the economic activity and should offset the expected weakness in the Paper Division to some extent. Operations aside, management's focus on offering sustainable solutions and simplification of the corporate structure should improve investor sentiment going forward. We remain encouraged by management's commentaries which did not include any significant changes to the mid-to-long-term goals. Moreover, we expect the group-level cost optimization initiatives to offer support to the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E
CPH Chemie & Paper	6.9x	8.7x	7.1x	0.9x	0.9x	0.9x	12.5x	26.2x	16.7x
Paper peers:									
Holmen	NA	18.3x	17.2x	NA	3.5x	3.5x	NA	31.7x	29.2x
Stora Enso	8.8x	10.2x	9.3x	1.0x	1.4x	1.4x	12.3x	20.2x	16.7x
Altri	7.4x	10.4x	9.6x	1.7x	1.8x	1.8x	11.9x	20.1x	19.6x
Metsa Board	11.0x	9.6x	9.8x	1.2x	1.7x	1.6x	14.7x	16.0x	16.5x
UPM-Kymmene	8.6x	11.4x	10.4x	1.5x	1.9x	1.9x	14.1x	21.1x	18.8x
Norskse Scogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
James Cropper	15.6x	NA	NA	1.1x	0.0x	0.0x	33.8x	47.4x	21.3x
OJI Holdings	8.0x	NM	NM	0.4x	0.5x	0.5x	12.8x	13.3x	11.6x
Chemistry peers:									
Honeywell Int.	13.7x	18.1x	16.5x	3.0x	4.1x	3.9x	21.8x	25.8x	22.9x
Clariant	11.9x	NA	NA	1.4x	NA	NA	36.6x	NA	NA
Arkema	6.1x	7.3x	6.7x	0.8x	0.9x	0.8x	13.4x	14.7x	13.6x
WR Grace & Co.	14.5x	10.8x	9.8x	2.2x	2.1x	2.0x	55.0x	16.0x	13.8x
Packaging peers:									
Meadwestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	9.8x	0.1x	NA	0.7x	0.0x	NA	16.6x	10.6x	NA
Gerresheimer	11.3x	11.7x	10.7x	1.7x	1.9x	1.8x	19.3x	20.2x	17.8x
West Pharmaceutical Services	29.2x	28.7x	25.3x	6.5x	8.0x	7.3x	48.2x	45.1x	39.5x
Convertidora Industrial	4.5x	3.5x	NA	0.2x	0.2x	NA	22.5x	NA	NA
PSB Industries	5.0x	9.5x	5.1x	0.3x	0.4x	0.4x	17.7x	-22.7x	24.6x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bicare Ltd	49.4x	NA	NA	0.0x	NA	NA	1.3x	NA	NA
Median	10.4x	10.4x	9.8x	1.2x	1.7x	1.8x	17.1x	20.2x	18.8x
High	49.4x	28.7x	25.3x	6.5x	8.0x	7.3x	55.0x	47.4x	39.5x
Low	4.5x	0.1x	5.1x	0.0x	0.0x	0.0x	1.3x	-22.7x	11.6x
Premium (disc) to peers	(34%)	(16%)	(28%)	(24%)	(45%)	(52%)	(27%)	30%	(11%)

Source: Thomson Eikon (as on 24 Feb 2021)

Exhibit 2: CPH – Comparison with weighted average of division peers

	EV/EBITDA			P/S			P/E		
	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E
Weighted peer multiples	9.8x	10.2x	10.1x	1.1x	1.4x	1.7x	17.3x	18.2x	19.7x
CPH	6.9x	8.7x	7.1x	0.9x	0.9x	0.9x	12.5x	26.2x	16.7x
Premium (disc) to peers	(30%)	(15%)	(29%)	(17%)	(33%)	(50%)	NM	44%	(15%)

Source: Thomson Eikon (as on 24 Feb 2021)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Chemistry sales	69	75	79	78	73	74	78
Paper sales	246	264	301	293	210	209	213
Packaging sales	119	130	153	153	162	164	183
Net Sales	435	470	534	525	445	446	473
Cost of Sales	(267)	(309)	(311)	(298)	(255)	(273)	(279)
Gross profit	168	161	222	227	190	173	194
Personnel cost	(89)	(84)	(92)	(93)	(93)	(95)	(90)
Outsourced maintenance/repairs	(18)	(17)	(19)	(20)	(17)	(18)	(16)
Other operating expense	(25)	(26)	(28)	(26)	(25)	(25)	(24)
Total operating costs	(131)	(127)	(139)	(139)	(135)	(137)	(130)
EBITDA	37	34	83	88	55	36	64
Depreciation	(31)	(30)	(30)	(30)	(29)	(31)	(31)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	6	3	52	57	25	3	32
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	6	3	52	57	25	3	32
Finance costs	(6)	(8)	(7)	(6)	(5)	(5)	(3)
Finance income	1	2	1	0	0	0	0
Total financial income (expenses)	(5)	(7)	(6)	(6)	(5)	(5)	(3)
Profit before taxes (before exceptional items)	1	(4)	46	51	20	(1)	29
Non-operating items	(4)	23	0	1	19	4	0
Income taxes	(4)	(3)	(3)	(3)	8	(2)	(7)
Profit attributable to the parent	(8)	16	42	48	47	0.8	22
Basic EPS	(1.3)	2.7	7.1	8.1	7.8	0.1	3.6
Diluted EPS	(1.3)	2.7	7.1	8.1	7.8	0.1	3.6
DPS	0.7	0.7	1.8	1.8	1.8	1.8	1.8

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Assets							
Non-current assets							
PPE	384.6	384.1	376.1	366.4	352.6	357.2	356.7
Intangible assets	3.1	4.8	5.8	5.6	5.6	5.4	5.3
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	52.6	56.4	55.3	54.0	64.8	64.8	64.8
Total non-current assets	450.3	455.3	447.2	436.0	432.9	437.4	436.7
Current assets							
Inventories	68.9	59.2	69.6	78.5	78.3	73.3	78.6
Trade accounts receivable	69.1	77.8	72.1	72.4	52.9	63.6	67.4
Other receivables	8.9	18.0	13.1	14.0	17.2	17.2	17.2
Prepaid expenses and accrued income	4.8	7.0	9.2	8.6	6.7	6.7	6.7
Short-term financial receivables	0.1	0.0	100.3	0.0	0.0	0.0	0.0
Liquid funds and Securities	70.4	80.2	89.0	93.1	116.3	97.0	100.1
Total assets	672.4	697.6	800.5	702.7	704.2	695.1	706.7
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	12.0	12.0	1.2	1.2	1.2
Capital reserves	4.8	0.8	15.0	4.2	4.2	4.2	4.2
Profit reserves	351.2	346.4	336.2	375.2	418.5	454.6	444.5
Net result for the year	(7.9)	16.0	42.3	48.3	46.9	0.8	21.9
Non-current liabilities							
Long-term financial liabilities	145.6	143.5	120.5	116.8	109.7	106.0	102.3
Pension scheme liabilities	1.1	0.6	1.3	0.7	1.2	1.2	1.2
Other long-term liabilities	0.1	0.0	0.8	0.6	0.4	0.4	0.4
Long-term provisions	52.5	51.8	50.0	47.5	31.5	31.5	31.5
Current liabilities							
Trade accounts payable	53.1	69.5	69.7	66.3	56.8	61.6	66.0
Other payables	8.3	3.3	4.1	3.6	4.6	4.6	4.6
Accrued liabilities and deferred income	16.5	17.2	20.0	16.3	16.8	16.8	16.8
Short-term financial liabilities	7.0	9.8	125.8	5.9	8.1	7.8	7.5
Short-term provisions	7.6	5.6	1.2	3.8	3.3	3.3	3.3
Total liabilities	291.6	301.3	393.3	261.4	232.4	233.2	233.6
Total equity and liab.	672.4	697.6	800.5	702.7	704.2	695.1	706.7

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net profit for the period	(7.7)	16.2	42.3	48.5	47.0	0.8	22.0
Non-cash adjustments:	33.9	(1.5)	26.3	31.2	(2.2)	32.3	32.1
Change in CA and CL:							
(Increase)/ decrease in inventories	(13.1)	13.6	(8.6)	(10.2)	(4.1)	5.0	(5.3)
Decrease in trade accounts receivable	(0.5)	(7.7)	5.0	(1.3)	20.5	(10.7)	(3.9)
Increase/ (decrease) in trade accounts payable	1.6	15.8	(1.1)	(2.8)	(9.0)	4.9	4.4
Other changes in working capital	7.7	(4.2)	0.4	(4.3)	2.8	-	-
CFO	21.9	32.2	64.3	61.0	55.0	32.3	49.4
Investments in tangible fixed assets	(20.7)	(32.3)	(22.3)	(21.9)	(17.5)	(40.0)	(30.4)
Disposals of tangible fixed assets	20.5	15.4	6.3	0.8	5.2	-	-
Investments in intangible assets	(1.2)	(2.4)	(2.2)	(1.0)	(1.3)	(1.1)	(1.1)
Investments in business activities	(18.5)	-	(27.9)	-	(1.6)	-	-
Repayment of long-term financial receivables	-	-	-	100.9	(0.3)	-	-
CFI	(19.9)	(19.3)	(46.0)	78.9	(15.3)	(41.2)	(31.4)
Increase/ (Decrease) in short-term financial liabilities and receivables	0.1	1.0	(4.3)	(123.4)	(4.4)	(0.3)	(0.3)
Increase/ (Decrease) in long-term financial liabilities	19.0	(0.6)	(3.0)	(1.1)	-	(3.7)	(3.7)
Increase in other long-term liabilities	(0.4)	0.2	2.1	(0.2)	(0.4)	4.4	-
Dividends to shareholders	(3.6)	(3.9)	(3.9)	(10.9)	(10.8)	(10.8)	(10.8)
CFE	15.2	(3.3)	(9.1)	(135.6)	(15.6)	(10.4)	(14.8)
Exchange (losses)/gains	0.1	0.2	(0.3)	(0.2)	(0.9)	-	-
Net change in cash	17.2	9.8	8.9	4.1	23.2	(19.3)	3.2
Opening cash balance	53.1	70.3	80.1	89.0	93.1	116.3	96.9
Closing cash balance	70.3	80.1	89.0	93.1	116.3	96.9	100.1

Source: Research Dynamics, Company data

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Growth Ratios							
Sales Growth	4%	8%	14%	(2%)	(15%)	0%	6%
Chemistry division	11%	9%	5%	(2%)	(6%)	1%	6%
Paper division	(1%)	7%	14%	(3%)	(29%)	(1%)	2%
Packaging division	9%	9%	17%	0%	6%	1%	12%
Operating Profit Growth	NM	(51%)	NM	10%	(56%)	(86%)	NM
Net Income Growth	NM	NM	165%	14%	(3%)	(98%)	NM
Profitability Ratios (%)							
Operating margin (before impairment) (%)	1%	1%	10%	11%	6%	1%	7%
Chemistry division	2%	5%	8%	6%	6%	7%	7%
Paper division	(2%)	(5%)	10%	12%	(1%)	(9%)	1%
Packaging division	8%	7%	10%	11%	13%	13%	13%
EBITDA Margin %	8%	7%	16%	17%	12%	8%	14%
Net Margin (%)	(2%)	3%	8%	9%	11%	0%	5%
Return Ratios							
Profit Margin	(2%)	3%	8%	9%	11%	0%	5%
Asset Turnover	0.7x	0.7x	0.7x	0.7x	0.6x	0.6x	0.7x
Financial Leverage	1.7x	1.8x	1.9x	1.8x	1.5x	1.5x	1.5x
Dupont ROE (%)	(2%)	4%	11%	11%	10%	0%	5%
ROCE (%)	1%	1%	10%	10%	4%	1%	6%
ROA (%)	(1%)	2%	6%	6%	7%	0%	3%
Leverage Ratios							
Debt - Equity Ratio	0.4x	0.4x	0.6x	0.3x	0.2x	0.2x	0.2x
Net Debt - Equity Ratio	0.2x	0.2x	0.4x	0.1x	0.0x	0.0x	0.0x
Interest Coverage	1.4x	0.7x	11.8x	9.1x	9.1x	0.7x	9.5x
Liquidity Ratios							
Current Ratio	2.4x	2.3x	1.6x	2.8x	3.0x	2.7x	2.7x
Quick Ratio	1.7x	1.7x	1.3x	2.0x	2.2x	2.0x	1.9x
Valuation Ratios							
EV/EBITDA	12.3x	13.5x	5.5x	5.2x	8.2x	12.7x	7.1x
P/E	NM	25.5x	9.6x	8.4x	8.7x	NM	18.6x

Source: Research Dynamics, Bloomberg, Company data

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