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# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## FY2018 earnings update

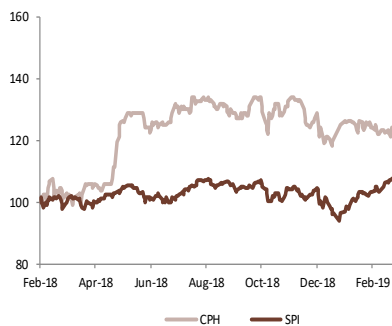
28 February 2019

### Company Data

Price:	CHF 88.0
Market Cap:	CHF 522mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (30 days):	900
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

	2017	2018	2019E	2020E
Sales	469.8	533.5	540.7	554.9
EBITDA %	7.2%	15.6%	15.1%	13.9%
EBIT %	0.6%	9.7%	9.1%	8.4%
Net Margin %	3.4%	7.9%	7.2%	6.9%
Basic EPS	2.66	7.05	6.51	6.38
Diluted EPS	2.66	7.05	6.51	6.38
DPS	0.65	1.80	1.63	1.60
Equity Ratio %	56.4%	50.7%	61.3%	62.7%
Capex	(19.3)	(18.2)	(32.8)	(33.7)
P/Sales	1.1x	1.0x	1.0x	0.9x
P/E	32.3x	12.2x	13.2x	13.5x
EV/EBITDA	17.5x	7.1x	7.3x	7.7x

### Next Events

AGM	19 Mar 2019
Investor Day	18 Jun 2019
1H 2019 Results	19 Jul 2019

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## CPH marks bicentenary with record results

### 2018: Record operating performance across segments

CPH Group reported a healthy set of numbers for the full year 2018, with revenue up by 13.6% y/y (organic 9.9%) to CHF 533.5mn. The increase in absolute terms was CHF 63.8mn out of which CHF 46.3mn was attributable to organic growth and CHF 14.1mn (3.0% y/y) to net favourable impact of FX along with CHF 3.4mn (0.7% y/y) of acquisition and divestiture activities. The revenue growth was broad-based, with the Packaging division up 17.5% y/y to CHF 152mn, followed by the Paper and Chemistry divisions, where sales for FY2018 increased 14.0% y/y to CHF 301.1mn and 5.3% y/y to CHF 79.4mn, respectively.

The Group's reported sales came in-line with our projections and achieved the guidance provided by the company post 3Q'18. The company in its guidance mentioned that the group is expected to deliver net sales growth only slightly below what it achieved during 1H2018 (which was 14.0% y/y) for the full year 2018. The Group reported operating profit (EBIT) of CHF 51.6mn (up CHF 48.7mn y/y), with the corresponding margin of 9.7% coming well within the guided range of 9-11%. The absolute EBIT and the EBIT-margin are unprecedented since the stock exchange listing in 2001. The net profit of CHF 42.3mn more than doubled in 2018 (CHF 16.2mn in 2017), demonstrating strong performance and efficiencies across divisions. This is even more significant as the non-operating profit declined to CHF 0.1mn from CHF 22.8mn in FY2017. Gross profit increased 38.0% y/y to CHF 222.3mn and the corresponding margin improved ~740bps to 41.7%. The increase in margins reflected CPH's continued efforts towards improving efficiencies to counter the adverse trend of rising prices of key raw materials across the segments. Although recovered paper prices increased during the period, procurement costs could be kept low thanks to increase in the proportion (~81%) of waste paper sourced from Switzerland as a result of the Utzenstorf integration as of early 2018 (see below). This has helped in lowering the transport costs for the segment.

The Packaging segment's revenue grew 17.5% y/y to CHF 153.0mn, while operating profit stood at CHF 15.4mn, up 61.2% y/y, with the corresponding margin at 10.1% (7.3% in 2017). The revenue growth was primarily led by an increase in volumes and greater contribution of high-barrier films. Revenues from the Chemistry segment rose by 5.3% y/y to CHF 79.4mn, aided by the acquisition and integration of the molecular sieves distribution business of Shanghai Yusheng Chemical Co. Ltd. in China and the business activities of Armar AG. EBIT increased by 60.6% y/y to CHF 6.1mn while the corresponding margin rose to 7.7% (5.1% in 2017). The Paper division's sales increased 14.0% to CHF 301.1mn on the back of higher paper prices and positive FX impact, partially offset by sales volume which was down 2.4% y/y to 540k tonnes. The volume declined as the demand for newsprint in Western Europe fell 8.2% further to 4.6mn tonnes and demand for magazine paper declined 4.7% to 3.8 million tonnes. The Paper division increased its EBIT significantly to CHF 30.1mn from an operating loss of CHF 12.3mn in 2017 and the corresponding margin came at 10.0% (cf. -4.7% in 2017).

### Integration coupled with cost efficiencies, the key to growth

Full integration of its China-based Chemicals' (ALSIO) and Packaging plants have allowed the company to transfer significant parts of its operations to China, thereby lowering costs and freeing up other facilities to produce higher-value products to improve the mix further. This has not only helped the company to reduce its operating costs but also to increasingly realign the cost base with that of the revenues. The company has also founded a new subsidiary "APS Altpapier Service Schweiz AG", a separate brand within the paper division, to handle additional upstream activities within the recycling process consequent to the take-over of the waste paper collection and processing contracts of Papierfabrik Utzenstorf AG. These steps should help the company to increase its profitability in the near to medium term.

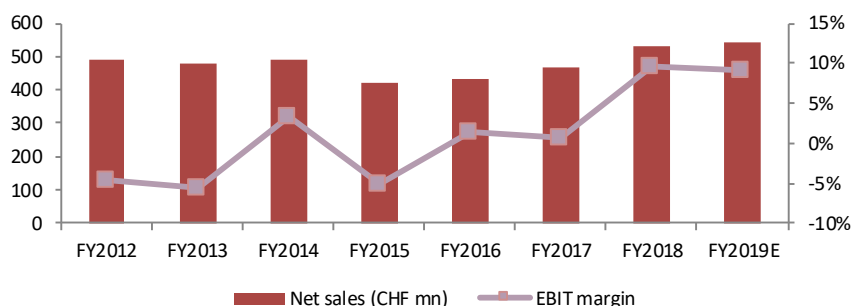
### Valuation: outperformed the benchmark by a wide margin

CPH has significantly outperformed the SPI Index in 2018, reflecting growing investor interest and confidence. Since 2018, CPH shares are up 57.8% (SPI: 2.8%), reflecting successful execution of its business realignment plans. At the current price level, CPH trades at a discount of 50% to its peers on 2019e P/S. Similarly, CPH is trading at a discount of 19% to its peer average EV/EBITDA for 2019e. Our DCF based target price is CHF 100.7 per share, implying an upside of 14.4% from the current level. We expect the company to maintain its earnings growth in the near to medium-term. Also, with improved paper prices in 2018, relatively stable FX, along with a conducive environment in the Packaging division and a successful repositioning of the Chemistry division, CPH should be able to further improve its performance.

**FY2018 – record EBIT with strong margins**

In 2018, the combination of higher sales, improved efficiencies across all divisions and internationalization of the company's operations lifted the top-line by 13.6% y/y to CHF 533.5mn (FY2017: CHF 469.8mn). The Packaging division led the growth (up 17.5% y/y), with net sales generated outside Europe increasing from 32.0% in 2017 to 35% in 2018. This is clearly a reflection of the successful execution of the Group's diversification plans. The contribution from Europe is expected to fall further with the acquisition of a majority stake in the Sekoya (renamed to Perlen Packaging Anápolis) company in Brazil in 2018; the company expects to achieve 20% growth in Brazil in 2019. The Chemistry division also continued to grow, supported by higher demand for molecular sieves. The Chemistry division reported a sales growth of 5.3% to CHF 79.4mn, aided by the molecular sieve distribution business of Shanghai Yusheng Chemical Co. Ltd. in China. The Paper division witnessed a small decrease in sales volume (in tonnes) due to the decline in demand for newsprint and magazine paper in Western Europe. The decline in volume was offset by paper price increase, which resulted in higher sales growth of 14.0% to CHF 301.1mn.

**Exhibit 1: CPH Net sales vs EBIT margin**



Source: Company data, Research Dynamics

Overall, CPH's energy costs increased slightly (2.0%) to CHF 55.3mn (vs. CHF 54.2mn in 2017). However, the energy costs as a percentage of sales declined to 10.4%, as compared to 11.5% in 2017. Personnel costs increased 9.3% y/y to CHF 92.3mn, due to acquired business and higher USA pension scheme expense. Although the Group's overall workforce number increased from 1,019 to 1,081, the share of personnel cost relative to sales decreased to 17.3% from 18.0% in the previous year. Also, the cost of materials increased to CHF 269.8 (CHF 247.9 in 2017), however, like other major costs it decreased as a percentage of sales from 52.8% in 2017 to 50.6% in 2018. The group made significant progress in all divisions and gross profit increased by 38.0% y/y to CHF 222.3, with the corresponding margins improved by 7.4pp to 41.7%. The increase in efficiency is primarily attributable to the greater procurement of recovered paper from Swiss domestic sources which offset the higher overall raw materials' prices.

Similarly, EBITDA increased significantly to CHF 83.1mn in 2018 from CHF 33.8mn in the previous year, resulting in a record high EBITDA margin of 15.6%. The group also reported a record high EBIT of CHF 51.6mn, as compared to CHF 2.9mn in 2017, with the highest ever EBIT margin of 9.7% since the listing of the Group in 2001. The CPH Group reported adjusted net profit of CHF 42.2mn in 2018, a significant improvement over a loss of CHF 6.6mn in FY2017 (adjusted for one-time non-operating profit). The net profit in 2017 was positively impacted by CHF 22.8mn income arising out of the disposal of real estate. In addition, the company announced a dividend of CHF 1.30 per share along with a special dividend of CHF 0.50 per share for completing its 200<sup>th</sup> year. At a closing price of CHF 88 per share, the dividend yield for CPH shares comes to 2.0% and the payout ratio to 25% (including special dividend). Also in 2018, the Group generated CHF 69mn cash flow for the year 2018 with a free cash flow of CHF 18.3mn.

**Current liquidity position**

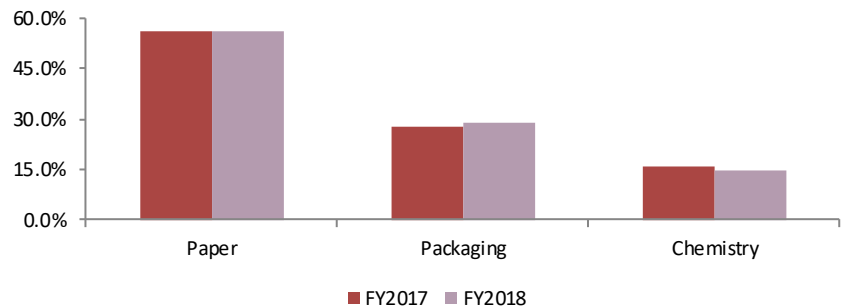
On 14 September 2018, CPH announced that it has issued at-par corporate bonds worth CHF 85mn with a maturity of 5 years and an annual coupon rate of 2.0%. On 8 October, the company increased the total amount of the bond issuance to CHF 100mn in response to high investor demand. The proceeds from this additional issue will be used to refinance the group's 2014 bonds of CHF 120mn with a coupon of 2.75% due to be redeemed on 10 July 2019. Through this bond issuance, CPH has ensured timely refinancing of the previously issued bonds at a lower coupon rate. The company is also paring its debt burden by repaying a portion of the original bonds using its own funds.

Lower-cost refinancing of debt coupled with repayment of CHF 20mn is expected to collectively result in a savings of more than CHF 1.0mn in net annual interest cost, assuming an effective tax rate of 20%. The company should realise the full benefits of these savings from FY 2020 onwards, given that the debt matures only in July 2019. At the end of fiscal 2018, the Group held liquid funds of CHF 89.0mn along with short-term financial receivables of CHF 100.3mn (from bond issue), with an equity ratio of 50.9%.

**Strategy execution**

The company, in accordance with its strategy, continued to expand outside of Europe, although Europe still remains the biggest source of revenue with ~78% of total revenue generated from the region. CPH’s successful expansion in Asia and realignment of the Chemistry division has started yielding results, evidenced by a significantly improved EBIT and corresponding margin for the Chemistry division. All three divisions achieved encouraging numbers; even the revenue mix remained largely the same with paper division contributing 56.4% of Group net sales in 2018 (56.2% in 2017), while the Chemistry and Packaging divisions contributed 14.9% and 28.7%, respectively.

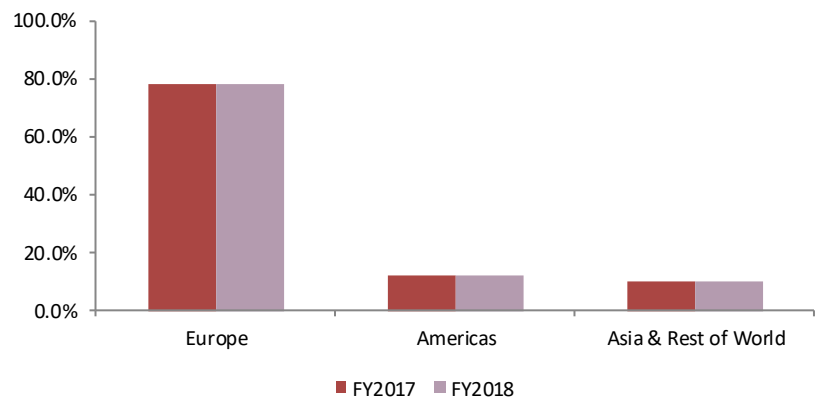
**Exhibit 2: CPH Net sales by division**



Source: Company data, Research Dynamics

In terms of geographies, contribution from all three major regions remained flat, with Europe remained highest at 78% (flat y/y), Similarly, contribution from the Americas 12% and Asia & Rest of world at 10% remained largely stable.

**Exhibit 3: CPH net sales by region**



Source: Company data, Research Dynamics

However, since 2013, the revenue structure has – in line with the strategic priorities defined couple of years ago – changed significantly with the Chemistry and Packaging divisions’ contribution increasing from 36% to 44%. Likewise, the share of sales from outside of Europe has increased from 16% to 22% over the same time. And lastly, but also importantly, capacities have been built up outside of Switzerland in order to reduce the foreign exchange exposure and dependency on the Swiss Franc. The change is evident from the reduction of the Swiss Franc share from 70% in 2013 to 40% in 2018.

### Segmental performance

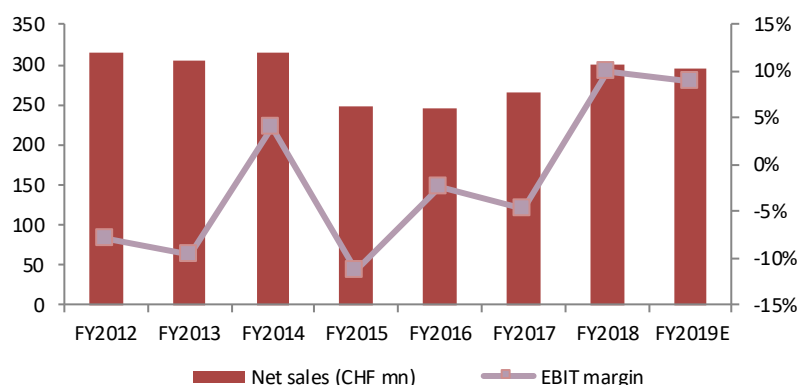
- Paper: Improved paper prices drive top-line growth**

The performance of the Paper division was largely impacted by transportation costs on the input and output materials. Thus, the company has focused on regionalising the input materials through the acquisition of Papierfabrik Utzenstorf's waste paper sorting facility. In 2018, the procurement and processing of recovered paper was expanded and 81.0% of the waste paper was obtained from Swiss sources, with a positive impact on cost. In 2018, the Paper division's sales grew 14.0% y/y to CHF 301.1mn, driven by the improved pricing as compared to 2017.

The total paper produced during 2018 was 5,43,554 tonnes, 1.3% higher than 2017 level, however total volume sold was lower than the previous year by 13,221 tonnes due to weaker demand in Western Europe. The demand of newsprint in Western Europe fell a further 8.2% to 4.6mn tonnes and demand for magazine paper declined another 4.7% to 3.8 million tonnes.

Region-wise sales witnessed a more balanced portfolio, where exports to the rest of Europe fell from for 81% of total sales in 2017 to 77% in 2018, followed by Switzerland 21% (15% in 2017), Asia 1% (3% in 2017) and the Americas 1% (flat y/y). The division was particularly impacted by the rise in recovered paper prices; however, operational efficiencies including the setting up of "APS Altpapier Service Schweiz AG" to handle additional upstream activities within the recycling process and increase the share of in Switzerland sourced waste paper to 81% were able to mitigate the adverse impact on profitability. EBITDA for the segment stood at CHF 50.9mn from CHF 9.1mn in 2017 and the corresponding margin stood at 17.0%, while EBIT came in at CHF 30.1mn from CHF -12.3mn in 2017. The positive impact on EBIT can be further attributed to the stable demand and supply environment and increase in price for paper during 2018.

**Exhibit 4: Paper sales and EBIT margin**

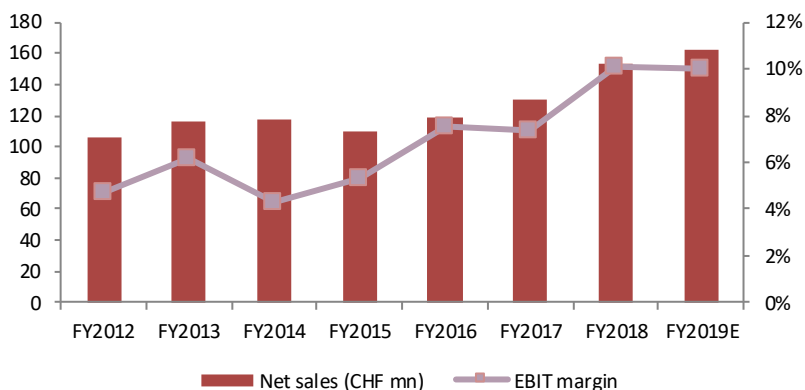


Source: Company data, Research Dynamics

- Packaging: Revenues grew on the back of strong volumes**

Revenues from the Packaging business stood at CHF 153.0mn, up 17.5% y/y, largely driven by a rise in sales of high-barrier films. The division's sales volumes grew by 8.8% y/y in 2018 and higher raw materials prices were largely passed on to customers. Utilisation at the European facilities remained at peak and Europe remained the highest contributor to total sales with 65% (vs. 68% in 2017), followed by the Americas (17%), Asia (16%) and the Rest of the World (2%). Domestic sales contributed 5% to total revenues. EBITDA grew to CHF 21.6mn, up by 39.1% y/y, despite higher competition from rising capacities in China and higher raw material (Ethylene) costs. EBIT grew to CHF 15.4mn (+61.2% y/y) with a margin of 10.1% (7.3% in 2017).

**Exhibit 5: Packaging net sales and EBIT margin**

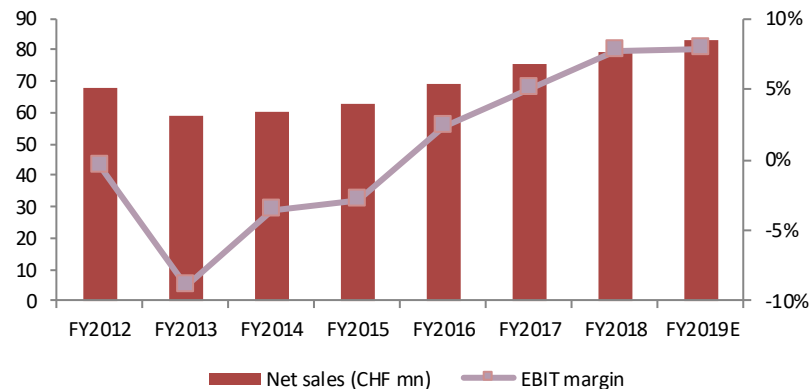


Source: Company data, Research Dynamics

**Chemistry: Capacity utilisation drives EBIT margin improvement**

The Chemistry division continued its upward spiral with consecutive five years of rising top-line. Revenues increased by 5.3% y/y to CHF 79.4mn in 2018, supported by higher demand for molecular sieves. Capacities at the US and China plants were fully utilized during the year. However, the new European facilities has to be ramped up following the relocation of the plant and equipment from the Uetikon site, which had a slight negative impact on sales growth. The Americas accounted for 48% of the total revenue of 2018, followed by Asia (26%), Europe (22%) and ROW (4%). The home market contributed only 1% of total revenue. In terms of profitability, EBITDA grew 47.6% y/y to reach CHF 10.7mn. The division reported an EBIT of CHF 6.1mn and the margin improved to 7.7% from 5.1% in 2017. The total number of employees declined from 303 in 2017 to 293 in 2018. The decrease in headcount was due to job eliminations resulting from the closure of the Uetikon site.

**Exhibit 6: Chemistry net sales and EBIT margin**



Source: Company data, Research Dynamics

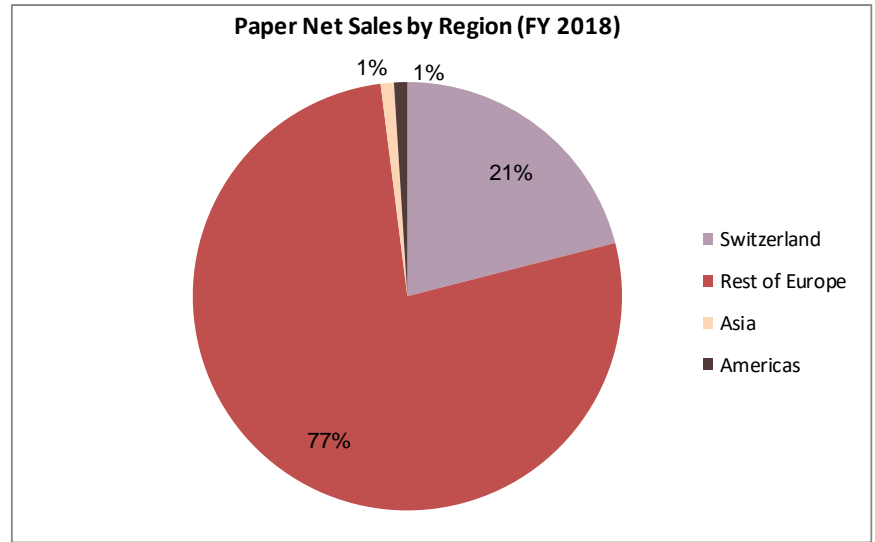
**Business strategy update**

CPH continues to execute on its strategy to diversify its geographical revenue base, to reduce currency volatility, lower dependence on the paper segment and to invest into the faster growing Packaging and Chemistry segments. The company continues to make further progress on this and, we believe, is on track to meet its objectives in the mid-to-longer term. Even though the contribution of the Paper segment to total revenues has remained high, the company managed to grow its market share in domestic and European markets. Additionally, the company has been successful in improving its top-line in absolute terms in markets outside Europe, even though the contribution mix remains largely unchanged. CPH will thus continue to invest to diversify its geographical base (as by buying a majority stake in the Sekoya company of Brazil at the beginning of 2018 or buying and integrating the molecular sieves distribution business of Shanghai Yusheng Chemical Co. Ltd. in China), while better balancing its three business segments and reducing currency dependence. The Group also plans to invest CHF 29.9mn in tangible assets in 2019 to enhance efficiency and increase production further. In addition, the company is also looking for an inorganic route for growth and could invest around CHF 50mn if right opportunity appears.

**Paper**

The paper industry is mired with a slowdown in demand due to continued adoption of latest technologies, resulting in a supply glut in the market. Moreover, commoditised final products with limited scope for differentiation require cost efficiencies in order to remain relevant in the market. For logistics and other reasons, including transportation expense, the division supplies within an 800-km radius from its production site and thus has a high exposure to Europe and the EUR currency. In order to enhance its cost leadership and competitiveness, CPH acquired Papierfabrik Utzenstorf, which allows Perlen Paper to source recycled paper almost entirely from local sources. In 2018, almost 81% of the waste paper was from local sources. This vertical integration resulted in cost savings. The Paper division plans investments of ~CHF 5.1mn in 2019 to improve its operating efficiency further.

**Exhibit 7: Paper sales by region – 2018**

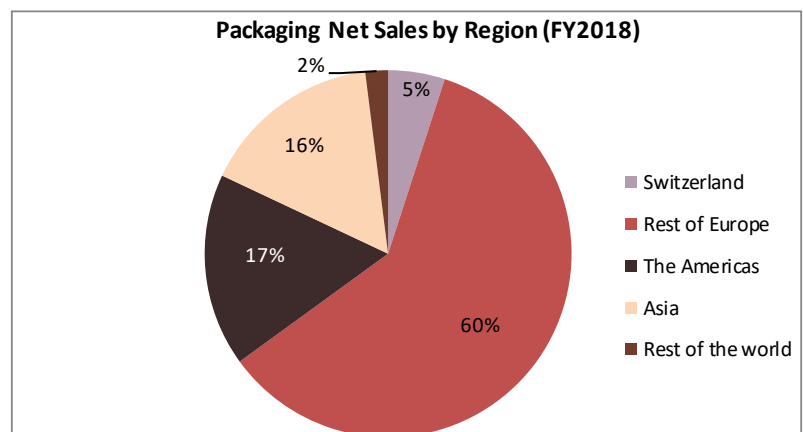


Source: Company data, Research Dynamics

**Packaging**

CPH’s Packaging division caters to the pharmaceuticals’ industry and has an annual production capacity of up to 40,000 tonnes. The division is expanding its presence globally with the completion of the new production facility in Suzhou/China and a new manufacturing facility in Anapolis, which commenced operations from November 2018. The company has production facilities across the globe (Switzerland, Germany, the US and China). The company acquired a majority stake in Sekoya of Brazil (renamed to Perlen Packing Anapolis) with a view to expand its footprint in Latin America. The company plans to substantially increase the division’s share of sales from the Latin American markets, where standards of living, incomes and the demand for medicines are all on the rise. The company aims to achieve ~20% growth in Brazil in 2019. Meanwhile, on the production side, the company is developing new film products with high barrier credentials, which is responsible for sales volume growth. The company plans to invest CHF 9.7mn for Packaging’s production facilities in 2019.

**Exhibit 8: Packaging sales by region – 2018**



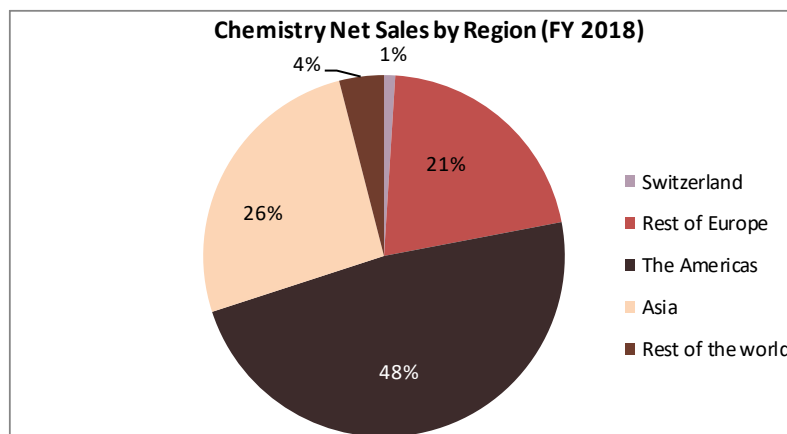
Source: Company data, Research Dynamics

### Chemistry

It was another year of strategic realignment for the Chemistry division, following the 2016/17 integration of the production facilities of a China-based molecular sieve manufacturer. In addition, the US plant expanded in 2017 is now supplying high-value molecular sieves that are in particularly used to purify air in the oxygen concentration process. The transformation of the division continued with the company's new production facility in Bosnia and Herzegovina, spread across a 5,500 sq. meter site, which started production in the later part of 2017. The new plant started its operations at the end of 2017 and ramped up its production in the first quarter of 2018.

The production of molecular sieve powders, chromatography gels and special zeolites has been transferred at the end of 2017 from the present Swiss location (Uetikon). While the manufacture of deuterated solvents and high-performance gels will remain in Switzerland (and was moved to a new location in Rüti, Canton of Zurich), fertilizer production ceased in mid-2017 and contributed nothing in FY2018 revenues. Moreover, the acquisition of Armar AG resulted in a further strengthening of the highly specialized deuterated products segment. The strategic realignment will give the Chemistry division production facilities in the US, China, Bosnia and Herzegovina and Switzerland, thus placing the division well to cater to global growth opportunities. In addition, the increased investments in the energy sector pushed the demand of sieves, which are used to purify ethanol and natural gas. The Chemistry division plans to invest CHF 5.9mn further, major part of that will be spend on Chinese operation for the capacity expansion and wastewater treatment.

**Exhibit 9: Chemistry sales by region – 2018**



Source: Company data, Research Dynamics

### Outlook and estimates

After the strong performance in 2018, we believe it will be challenging for the company to report similar growth in 2019 against a higher base. However, we believe, the company's near-to-medium term growth is expected to be driven by the group's increasing exposure to the fast-growing markets of Asia and Latin America. Cost efficiencies driven by low cost production facilities in China and Bosnia & Herzegovina are expected to support and improve margins further. The Group expects to report a marginal increase in annual net sales of 2019. Maintaining the EBIT margins at current levels may be a difficult task, but the company believes net profit including non-operating profits (potential real estate sales) should be broadly at 2018 levels. In addition, the first shortage of paper in the paper markets in years resulted in improved prices and with relatively stable FX, along with a conducive environment in Packaging division and successful repositioning of Chemistry division should boost earnings further.

#### Paper: Cost efficiencies and stable prices to drive performance further

The paper industry remains in a downturn with falling demand and excess capacity. The demand for newsprint and magazine paper is likely to decrease further in Europe this year. According to the company, current industry projections suggest that the demand for wood-containing graphic printing paper in Europe will further decline by 6-8% in 2019. The supply and demand gap should be narrow in the first half of 2019. As per the company, the second half is dicey to predict.



The division's focus remains on improving cost efficiencies to maintain cost leadership in the market. The acquisition of Papierfabrik Utzenstorf helped in achieving significant costs savings, as the waste paper supplies now coming from within Switzerland increased (81% of total), thereby reducing transportation and logistics costs. The company expects to deliver net sales at the similar levels of 2018, with a slight drop in EBIT margin from 2018 levels.

#### **Packaging: Optimum utilization of capacity to drive performance**

CPH's Packaging division caters primarily to the pharmaceuticals' industry. The company manufactures PVC mono-films and coated PVdC films, which are primarily used in blister packs for medicines. CPH is the market leader in supplying films with high barrier credentials that are most effective at protecting the substances involved from outside elements. According to the company, current industry estimates show the average global growth in demand for pharmaceutical packaging in 2019 is around 6.5%. The division plans to invest in automating the laminating and finishing process at its European plants to improve productivity further.

The company expects the Packaging division to grow faster than the overall market. CPH's focus is on increasing its market share in regions such as Asia and Latin America's pharmaceuticals films market. The company expects Packaging division to report further growth in 2019 with EBIT margin broadly in line with 2018 levels.

#### **Chemistry: Strategic realignments to continue**

CPH's Chemistry division produces silica-based molecular sieves used in industrial and chemical industries and the production of fuels. The division also produces chromatography gels used to separate pharmaceutical agents. The company expects to intensify its 2019 sales activities for the division after the international structure fully adopted in 2018. The company expects Chemistry division to report an EBIT margin for 2019, which will be broadly in line with 2018 levels.

**Dividend distribution:** CPH Group announced a dividend of CHF 1.30 per share for 2018, along with a dividend of CHF 0.50 per share commemorating the company's 200<sup>th</sup> anniversary. The company has a significant cash position and, we believe, the distribution of dividends should continue to grow in tandem with the improvement in future performance. In addition, the company has generated free cash flow of CHF 18.3mn and by reducing its debt of CHF 120mn by the mid of 2019, the financial situation is likely to improve going forward.

## **Valuation and conclusion**

The Group reported a strong set of numbers with top line increasing by 13.6% y/y along with a record high EBIT margin of 9.7% for the full year 2018. Results were in line with our expectations; hence, we have not made any significant changes in our estimates.

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 100.6 per share remains at similar levels (previous CHF 101.6) as well, implying an upside of 14.4% from 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 CPH's divisions.

We have employed three parameters – EV/EBITDA, P/S and P/E – to analyse 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 division. Given its diversified business model, this consolidated peer average is most comparable to CPH's valuation multiples.

CPH currently trades at a P/S multiple of 1.0x (FY2019E), a significant 50% 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 strong 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 leadership and cost saving initiatives, advanced technology and continued operational improvements, although the business environment with overcapacities and decreasing demand for newsprint paper remains challenging.

**Exhibit 10: Sensitivity of upside**

		Sensitivity Table				
		WACC				
		3.2%	4.2%	4.9%	6.2%	7.2%
Terminal growth rate	0.25%	137	102	86	68	58
	0.50%	148	108	91	70	59
	0.75%	162	115	95	72	61
	1.00%	179	123	100	75	63
	1.25%	200	132	106	78	65
	1.50%	227	143	113	82	68
	1.75%	264	156	121	86	70

Source: Company data, Research Dynamics

**Exhibit 11: CPH – Comparison with division peers**

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
CPH Chemie & Paper	9.4x	7.9x	7.4x	0.6x	1.0x	0.9x	24.6x	16.4x	14.5x
<b>Paper peers:</b>									
Holmen	8.4x	10.9x	10.6x	0.8x	2.0x	2.0x	16.5x	17.9x	17.2x
Stora Enso	7.3x	6.5x	6.3x	1.4x	0.9x	0.9x	10.1x	10.7x	10.3x
Altri	12.4x	5.9x	5.4x	1.2x	1.8x	1.7x	19.1x	8.3x	7.5x
Metsa Board	8.9x	7.6x	7.3x	1.2x	1.2x	1.1x	13.3x	11.0x	10.4x
UPM-Kymmene	11.7x	7.6x	7.6x	0.0x	1.4x	1.4x	2.8x	12.6x	12.8x
Norskse Scogindustrier	15.4x	NA	NA	1.2x	NA	NA	31.4x	NA	NA
James Cropper	10.6x	0.1x	0.1x	0.4x	0.0x	0.0x	17.8x	20.3x	13.9x
OJI Holdings	NA	922.7x	883.7x	NA	0.4x	0.4x	11.6x	10.8x	9.6x
<b>Chemistry peers:</b>									
Honeywell Int.	12.0x	13.4x	12.6x	1.4x	3.0x	2.9x	14.2x	19.3x	17.8x
Clariant	10.4x	NA	NA	0.6x	NA	NA	11.1x	NA	NA
Arkema	6.9x	5.6x	5.4x	0.7x	0.8x	0.8x	9.8x	10.1x	9.7x
WR Grace & Co.	17.7x	11.5x	10.7x	1.7x	2.6x	2.4x	15.9x	17.1x	15.2x
<b>Packaging peers:</b>									
Meadwestwaco	6.0x	NA	NA	0.7x	NA	NA	13.7x	NA	NA
MacFarlane Group	5.8x	0.1x	0.1x	0.2x	0.0x	0.0x	7.7x	11.8x	11.4x
Gerresheimer	7.0x	10.5x	9.9x	1.0x	1.5x	1.4x	14.2x	17.6x	15.7x
West Pharmaceutical Services	9.9x	19.3x	18.2x	1.7x	4.2x	4.0x	20.1x	35.4x	31.4x
Convertidora Industrial	8.4x	NA	NA	0.4x	NA	NA	NA	NA	NA
PSB Industries	4.6x	4.0x	3.7x	0.4x	0.4x	0.4x	8.1x	13.1x	11.4x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	9.4x	NA	NA
Bicacre Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	8.4x	7.6x	7.5x	0.7x	1.3x	1.3x	13.3x	12.8x	12.1x
High	17.7x	922.7x	883.7x	1.7x	4.2x	4.0x	31.4x	35.4x	31.4x
Low	3.3x	0.1x	0.1x	0.0x	0.0x	0.0x	2.7x	8.3x	7.5x
Premium (disc) to peers	11%	4%	(1%)	(21%)	(26%)	(28%)	NA	27%	20%

Source: Bloomberg (as on 26 February 2019)

**Exhibit 12: CPH – Comparison with weighted average of division peers**

	EV/EBITDA			P/S			P/E		
	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E	3 year average	CY2019E	CY2020E
Weighted peer multiples	9.7x	9.7x	9.1x	0.9x	1.9x	1.8x	12.1x	15.6x	14.0x
CPH	9.4x	7.9x	7.4x	0.6x	1.0x	0.9x	24.6x	16.4x	14.5x
Premium (disc) to peers	(3%)	(19%)	(19%)	(37%)	(50%)	(49%)	NM	5%	4%

Source: Bloomberg (as on 26 February 2019)

## DETAILED FINANCIAL STATEMENTS

### Income statement

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Chemistry sales	60	63	69	75	79	83	88
Paper sales	314	248	246	264	301	295	292
Packaging sales	118	110	119	130	153	162	175
<b>Net Sales</b>	<b>492</b>	<b>420</b>	<b>435</b>	<b>470</b>	<b>534</b>	<b>541</b>	<b>555</b>
Cost of Sales	(313)	(285)	(267)	(309)	(311)	(322)	(330)
<b>Gross profit</b>	<b>180</b>	<b>135</b>	<b>168</b>	<b>161</b>	<b>222</b>	<b>219</b>	<b>225</b>
Personnel cost	(88)	(86)	(89)	(84)	(92)	(92)	(101)
Outsourced maintenance/repairs	(18)	(16)	(18)	(17)	(19)	(17)	(18)
Other operating expense	(23)	(21)	(25)	(26)	(28)	(28)	(29)
<b>Total operating costs</b>	<b>(129)</b>	<b>(123)</b>	<b>(131)</b>	<b>(127)</b>	<b>(139)</b>	<b>(137)</b>	<b>(148)</b>
<b>EBITDA</b>	<b>51</b>	<b>12</b>	<b>37</b>	<b>34</b>	<b>83</b>	<b>82</b>	<b>77</b>
Depreciation on tangible fixed assets	(34)	(34)	(31)	(30)	(30)	(31)	(30)
Depreciation on intangible assets	(1)	(0)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>3</b>	<b>52</b>	<b>49</b>	<b>47</b>
Impairment	0	0	0	0	0	0	0
<b>Operating profit (EBIT)</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>3</b>	<b>52</b>	<b>49</b>	<b>47</b>
Finance costs	(7)	(13)	(6)	(8)	(7)	(6)	(4)
Finance income	2	1	1	2	1	0	0
<b>Total financial income (expenses)</b>	<b>(6)</b>	<b>(12)</b>	<b>(5)</b>	<b>(7)</b>	<b>(6)</b>	<b>(6)</b>	<b>(4)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>10</b>	<b>(34)</b>	<b>1</b>	<b>(4)</b>	<b>46</b>	<b>43</b>	<b>43</b>
Non-operating items	1	2	(4)	23	0	0	0
Income taxes	(1)	(1)	(4)	(3)	(3)	(4)	(4)
<b>Profit attributable to the parent</b>	<b>11</b>	<b>(33)</b>	<b>(8)</b>	<b>16</b>	<b>42</b>	<b>39</b>	<b>38</b>
<b>Basic EPS</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>2.7</b>	<b>7.1</b>	<b>6.5</b>	<b>6.4</b>
<b>Diluted EPS</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>2.7</b>	<b>7.1</b>	<b>6.5</b>	<b>6.4</b>
<b>DPS</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>

Source: Company data, Research Dynamics

### Balance sheet

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	419.1	404.3	384.6	384.1	376.1	375.1	375.1
Intangible assets	1.3	2.4	3.1	4.8	5.8	7.4	10.6
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	22.7	20.2	52.6	56.4	55.3	55.3	55.3
<b>Total Non-Current Assets</b>	<b>456.0</b>	<b>436.9</b>	<b>450.3</b>	<b>455.3</b>	<b>447.2</b>	<b>447.8</b>	<b>450.9</b>
<b>Current assets</b>							
Inventories	63.4	54.5	68.9	59.2	69.6	62.0	62.1
Trade accounts receivable	79.5	66.4	69.1	77.8	72.1	75.9	77.9
Other receivables	7.7	8.0	8.9	18.0	13.1	13.1	13.1
Prepaid expenses and accrued income	6.6	4.9	4.8	7.0	9.2	9.2	9.2
Short-term financial receivables	0.1	0.0	0.1	0.0	100.3	0.0	0.0
Liquid funds and Securities	75.1	53.2	70.4	80.2	89.0	99.6	124.8
<b>Total assets</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>697.6</b>	<b>800.5</b>	<b>707.5</b>	<b>738.0</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	30.0	30.0	30.0	30.0	12.0	12.0	12.0
Capital reserves	12.3	8.4	4.8	0.8	15.0	15.0	15.0
Profit reserves	389.2	397.4	351.2	346.4	336.2	367.7	397.2
Net result for the year	10.5	(33.1)	(7.9)	16.0	42.3	39.0	38.3
<b>Non-current liabilities</b>							
Long-term financial liabilities	128.0	126.5	145.6	143.5	120.5	106.9	106.9
Pension scheme liabilities	0.6	1.0	1.1	0.6	1.3	1.3	1.3
Other long-term liabilities	2.4	2.3	0.1	0.0	0.8	0.8	0.8
Long-term provisions	20.8	20.0	52.5	51.8	50.0	50.0	50.0
<b>Current liabilities</b>							
Trade accounts payable	53.8	46.7	53.1	69.5	69.7	68.5	70.3
Other payables	3.9	2.6	8.3	3.3	4.1	4.1	4.1
Accrued liabilities and deferred income	9.1	13.6	16.5	17.2	20.0	20.0	20.0
Short-term financial liabilities	22.6	6.8	7.0	9.8	125.8	19.3	19.3
Short-term provisions	5.1	1.5	7.6	5.6	1.2	1.2	1.2
<b>Total liabilities</b>	<b>246.4</b>	<b>221.2</b>	<b>291.6</b>	<b>301.3</b>	<b>393.3</b>	<b>272.1</b>	<b>273.9</b>
<b>Total equity and liab.</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>697.6</b>	<b>800.5</b>	<b>707.5</b>	<b>738.0</b>

Source: Company data, Research Dynamics

**Cash flow statement**

CHF mn	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net profit for the period	10.5	(33.1)	(7.7)	16.2	42.3	39.0	38.3
Non-cash adjustments:	30.3	35.3	33.9	(1.5)	26.3	32.2	30.6
<b>Change in CA and CL:</b>							
(Increase)/ decrease in inventories	(5.5)	8.4	(13.1)	13.6	(8.6)	7.7	(0.1)
Decrease in trade accounts receivable	(11.2)	8.1	(0.5)	(7.7)	5.0	(3.9)	(2.0)
Increase/ (decrease) in trade accounts payable	(5.8)	(6.8)	1.6	15.8	(1.1)	(1.2)	1.8
Other changes in working capital	1.5	11.5	7.7	(4.2)	0.4	-	-
<b>Cash flows from operating activities</b>	<b>19.8</b>	<b>23.3</b>	<b>21.9</b>	<b>32.2</b>	<b>64.3</b>	<b>73.8</b>	<b>68.6</b>
Investments in tangible fixed assets	(19.2)	(21.9)	(20.7)	(32.3)	(22.3)	(29.9)	(30.0)
Disposals of tangible fixed assets	0.4	1.6	20.5	15.4	6.3	-	-
Investments in intangible assets	(0.6)	(1.6)	(1.2)	(2.4)	(2.2)	(2.9)	(3.7)
Investments in business activities	-	-	(18.5)	-	(27.9)	-	-
Repayment of long-term financial receivables	-	-	-	-	-	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>(19.4)</b>	<b>(22.0)</b>	<b>(19.9)</b>	<b>(19.3)</b>	<b>(46.0)</b>	<b>(32.8)</b>	<b>(33.7)</b>
Increase/ (Decrease) in short-term financial liabilities and receivables	(0.4)	(15.3)	0.1	1.0	(4.3)	(6.1)	-
Increase/ (Decrease) in long-term financial liabilities	9.8	(1.1)	19.0	(0.6)	(3.0)	(13.5)	-
Increase in other long-term liabilities	(0.2)	(0.1)	(0.4)	0.2	2.1	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)	(10.8)	(9.6)
<b>Cash flow generated (used) in financing</b>	<b>5.3</b>	<b>(20.4)</b>	<b>15.2</b>	<b>(3.3)</b>	<b>(9.1)</b>	<b>(30.5)</b>	<b>(9.6)</b>
Exchange (losses)/gains	0.2	2.3	0.1	0.2	(0.3)	-	-
<b>Net change in cash</b>	<b>6.0</b>	<b>(16.7)</b>	<b>17.2</b>	<b>9.8</b>	<b>8.9</b>	<b>10.5</b>	<b>25.3</b>
Opening cash balance	63.9	69.9	53.1	70.3	80.1	89.0	99.6
<b>Closing cash balance</b>	<b>69.9</b>	<b>53.1</b>	<b>70.3</b>	<b>80.1</b>	<b>89.0</b>	<b>99.6</b>	<b>124.8</b>

Source: Company data, Research Dynamics

**Key ratios**

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Growth Ratios</b>							
Sales Growth	2%	(15%)	4%	8%	14%	1%	3%
Chemistry division	2%	4%	11%	9%	5%	5%	5%
Paper division	3%	(21%)	(1%)	7%	14%	(2%)	(1%)
Packaging division	1%	(7%)	9%	9%	17%	6%	8%
Operating Profit Growth	NM	NM	NM	(51%)	NM	(4%)	(6%)
Net Income Growth	NM	NM	NM	NM	165%	(8%)	(2%)
<b>Profitability Ratios (%)</b>							
Operating margin (before impairment) (%)	3%	(5%)	1%	1%	10%	9%	8%
Chemistry division	(4%)	(3%)	2%	5%	8%	8%	8%
Paper division	4%	(11%)	(2%)	(5%)	10%	9%	8%
Packaging division	4%	5%	8%	7%	10%	10%	10%
EBITDA Margin %	10%	3%	8%	7%	16%	15%	14%
Net Margin (%)	2%	(8%)	(2%)	3%	8%	7%	7%
<b>Return Ratios</b>							
Profit Margin	2%	(8%)	(2%)	3%	8%	7%	7%
Asset Turnover	0.7x	0.6x	0.7x	0.7x	0.7x	0.7x	0.8x
Financial Leverage	1.6x	1.6x	1.7x	1.8x	1.9x	1.8x	1.6x
Dupont ROE (%)	2%	(8%)	(2%)	4%	11%	9%	9%
ROCE (%)	3%	(4%)	1%	1%	10%	9%	8%
ROA (%)	2%	(5%)	(1%)	2%	6%	5%	5%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.3x	0.3x	0.4x	0.4x	0.6x	0.3x	0.3x
Net Debt - Equity Ratio	0.2x	0.2x	0.2x	0.2x	0.4x	0.1x	0.0x
Interest Coverage	5.2x	(5.5x)	1.4x	0.7x	11.8x	8.1x	11.2x
<b>Liquidity Ratios</b>							
Current Ratio	2.5x	2.6x	2.4x	2.3x	1.6x	2.3x	2.5x
Quick Ratio	1.8x	1.9x	1.7x	1.7x	1.3x	1.7x	2.0x
<b>Valuation Ratios</b>							
EV/EBITDA	6.2x	25.8x	16.0x	17.5x	7.1x	7.3x	7.7x
P/E	22.9x	NM	NM	32.3x	12.2x	13.2x	13.5x

Source: Company data, Research Dynamics

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