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CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

Initiation of Coverage

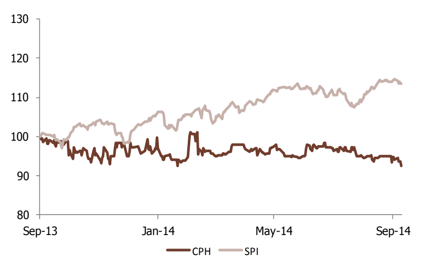
29 Sept 2014

Company Data

Price:	CHF 1189
Market Cap:	CHF 356.7mn
Free Float:	40.09%
Nr. of shares:	0.30mn
Avg. traded volume (1 year):	27
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange

Share Price Development



Key Financial Data (CHF mn, except ratios and per share data)

	FY12	FY13	FY14E	FY15E
Sales	489	481	500	520
EBITDA %	7.8%	6.4%	8.8%	10.1%
EBIT %	(4.5%)	(5.5%)	2.8%	5.4%
Net Margin %	1.6%	(56.4%)	1.5%	3.6%
Basic EPS	26.9	(904.9)	24.4	61.9
Diluted EPS	26.9	(904.9)	24.4	61.9
DPS	13.0	13.0	9.8	24.7
Debt/Equity	0.22x	0.32x	0.32x	0.31x
P/S	0.8x	0.8x	0.7x	0.7x
EV/EBITDA	12.3x	14.1x	9.7x	8.1x
EV/Sales	0.9x	0.9x	0.8x	0.8x

Next Events

Investor presentation	2 October, 2014
Annual results presentation	27 February, 2015

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Recovering its footing

SUMMARY

CPH Chemie + Paper Holding AG (the group) is a diversified industrial group, engaged in manufacturing paper, chemical products and packaging films. CPH generates the bulk of its revenue from the paper division, with sales in Switzerland and neighbouring Europe. CPH is the number one player in the Swiss market for production of newsprint and the country's only producer of magazine paper. The Packaging division manufactures high barrier films for the global pharmaceutical industry and is the third-largest supplier of PVdC coated high-barrier films. The Chemistry division produces molecular sieves and has substantial global exposure. In FY2013, the group's sales stood at CHF 481mn with an employee base of 859.

Exposure to high-growth markets to bolster revenues

CPH's two businesses – Packaging and Chemistry – have a strong presence in high-growth markets. The Packaging division has a plant in the US, where the pharmaceutical packaging industry is expected to grow at 5.9% CAGR over the next five years. CPH is also setting up a manufacturing facility in China to cater to the strong Asian market, which is expected to register double-digit growth over the 2013-2018 period. Similarly, CPH's Chemistry division, which manufactures zeolites that are used in oil & gas and petrochemical industries, has an operating facility in the US. Through this, the group is well placed to cater to the world's largest shale exploration region – North America. With shale exploration expected to reach its peak over the next few years, the global zeolite market is forecast to grow at over 7% CAGR over 2013-2018, with most of the growth coming from the Americas. CPH's presence in such high-growth markets should boost its top-line growth over the medium-term.

Investments in technology to boost margin expansion over long-term

The Paper division, which is facing stiff competition, aspires to be the cost leader in its relevant graphic paper markets. With an aim to improve operating margins by reducing costs, CPH has replaced its old PM5 machine with a new PM7 machine, which produces three times the quantity of paper with no additional manpower. The machine utilises recycled paper and waste-wood, reducing the input costs. Further, the PM7 machine consumes considerably lesser energy than the previous set-up, bringing down the energy costs as well. The machine, which was installed in 2010, is in the ramp-up stage and will commence production at its full capacity in 2015. We expect the new machine to help turn CPH's EBIT margin positive this year and raise it close to 7% in FY2016E.

Healthy H1 2014; positive outlook over the medium-term

Despite continuing pressures on the Paper division, a marginal price rise coupled with a rise in volumes of high-margin products resulted in favourable H1 2014 sales (+1.1% y/y) for the division. The Packaging division too reported a rise in sales (+0.5% y/y) on the back of strong demand from Asia. The demand from Americas helped support the Chemistry division, although price pressure in the domestic market more than offset the growth, resulting in a slight dip in sales y/y. However, the cost management measures undertaken by CPH's largest segment – Paper – helped the group report positive EBIT margin (3.8%) for the first time since H1 2009. Turnaround of the Paper business remains a major break-through for the group as the measures undertaken by the management have begun to fructify. We expect FY2014 to be better y/y on the back of a healthy H2 in which we anticipate all three businesses to improve their bottom-line performance. Moreover, the growing demand for the Chemistry division's products in the Americas and commissioning of the packaging film plant in China will offer further traction.

Current valuation level offers an entry opportunity

In view of CPH's diversified business profile, we have created a customised set of peers multiples based on the peer average of the group's business divisions. We have formulated the weighted average of these based on the sales contribution of the respective divisions. We have valued the CPH stock using DCF methodology taking into account that the company has operated through entire business cycle. Although the group is vulnerable to the structural changes in the Paper business and the subdued macroeconomic conditions in Europe; we believe the efforts undertaken by the management to revive the Paper business and strong growth potential in the other two businesses will deliver performance over the next few years. We believe the current price levels at which CPH is trading offers an attractive entry opportunity.

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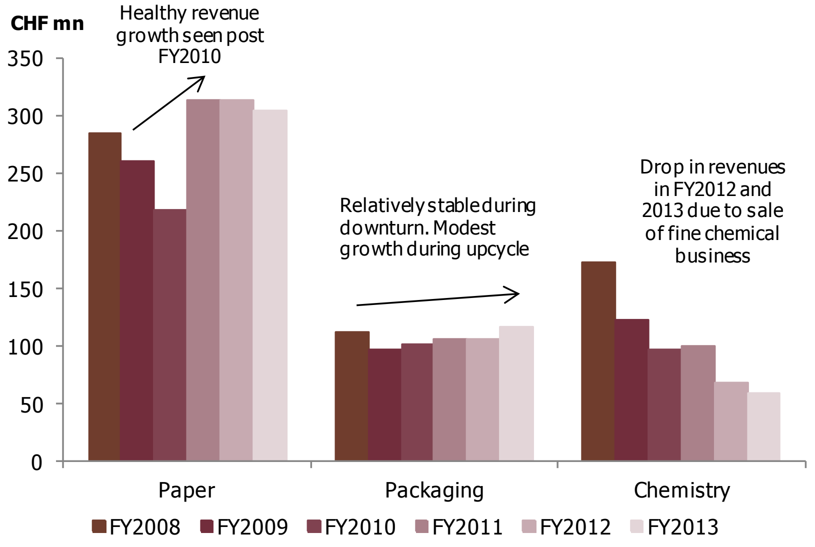
INVESTMENT HIGHLIGHTS

Blend of cyclical and defensive businesses offers balanced growth

CPH's sound business strategy with a balanced focus on cyclical and defensive businesses has helped it weather the shocks that came from the economic downturn witnessed during 2008-2010. Being cyclical in nature, both the Paper (64% of FY2013 sales) and the Chemistry (12% of FY2013 sales) businesses witnessed around 12% and 25% decline in their segmental revenues during the downturn (2008-2010). However, the defensive Packaging business' revenues declined just around 5% during the worst downturn in decades.

Exhibit 1: Revenue trend during the past six-year period



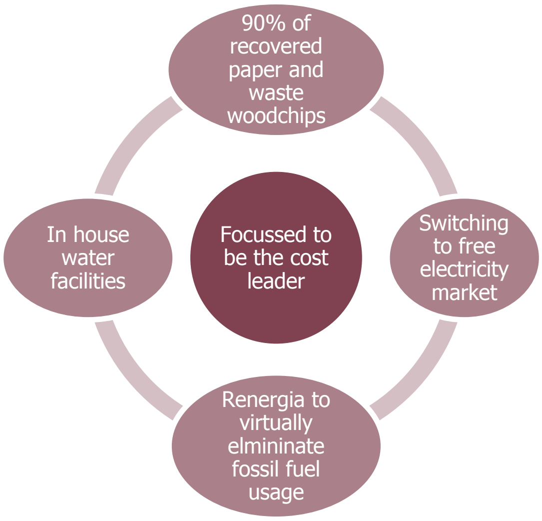
Source: Research Dynamics, Company data

Despite facing structural issues such as overcapacity and price pressures in the Paper division, CPH's initiatives has brought the division back on the growth trajectory with its top-line growing at 11.8% CAGR (2010-2013). In addition, recovery in the broader market helped the Packaging division to chart a lower-than-cyclical growth path typically seen in the defensive industries (sales grew at 4.6% CAGR during 2010-2013). Looking at the larger picture, the group's net sales grew 4.9% since the recovery began. Although the Chemistry division continues to reel under pressure, its growth potential, especially in the Americas, offers healthy opportunities in the next few years. Considering the blend of cyclical and defensive business portfolio, we expect CPH to offer a balanced growth over the medium term.

Focus on cost management to boost margins in the largest division

The Paper division, which contributed over 60% to the group's revenues, is witnessing a declining demand over the past few years. To mitigate the pressures, CPH has undertaken various cost management initiatives to achieve the cost leadership position in its relevant markets. To reduce the raw material costs, the division aims to source more recovered paper and waste woodchips (which form over 90% of the input) from Switzerland, thus lowering transport costs. Moreover, considering the energy-intensive nature of the paper business, CPH decided to switch to free electricity market beginning 2014, which will help the division save over CHF 10mn annually. In addition, the group has acquired 10% stake in Renergia, a waste incineration facility, which will supply the Paper division with steam required for the paper drying process. The facility will come on stream in 2015 and will help the Paper division virtually abandon the use of fossil fuel trimming energy costs. Moreover, the group has built in house facilities for water, which is required in large quantities, thereby reducing the group's reliance on the external sources. These initiatives will help the division turn its EBIT margin back to positive in the current year and reach to 6% and 7% in FY2015E and FY2016E respectively.

Exhibit 2: Focus on cost leadership in the Paper division



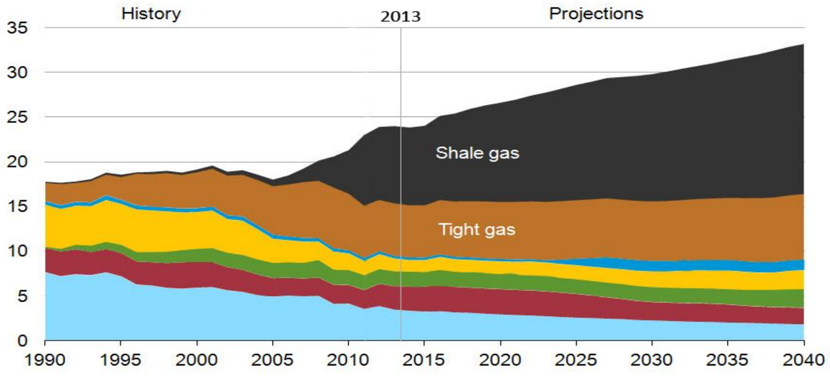
Source: Research Dynamics, Company data

Group's growth strategies in line with market dynamics

CPH's diversified businesses have varied strategic requirements and the group has action plans in place needed to succeed over the long term. The Packaging division, which manufactures a wide array of packaging films and coatings used in making blister packaging, is a producer dedicated to the pharmaceutical industry. The division has a strong presence in Europe (manufacturing facilities in Switzerland and Germany), where around 85% of solid drugs are packed in blisters. The division also has a plant in the US, where blister packaging market is expected to grow at 5.9% CAGR over the next five years. Additionally, the growing population in Asia, increasing affordability and cost saving initiatives by leading pharmaceutical companies have led to a rapid growth of the Asian pharmaceutical industry. CPH has picked the trend and has decided to setup a manufacturing base in China, the first by an international blister film manufacturer. The construction of the facility is planned to commence next year while the commissioning will take place in 2016. Moreover, the group plans to consolidate its market position in the high-growing Latin American market. With the blister packaging market in the Asia and South America expected to grow at double digits, we expect the division to gain a strong traction over the medium term.

The group's growth initiatives for its Chemistry division too are in line with the market demand. The division, which produces a range of molecular sieves (zeolites) used in oil & gas and industrial applications, has a manufacturing unit strategically located in the US – the world's biggest shale explorer. Moreover, the zeolites are used in producing medical oxygen, whose global market is expected to grow at 34.2% CAGR over the next five years with major demand coming from the emerging markets. This should bode well for the Chemistry division. Given the strategy, we expect the division's revenues to grow from CHF 59.2mn in 2013 to CHF 63.4mn with EBIT margin reaching 6.5% in FY2016E.

Exhibit 3: Growing shale exploration bodes well for Chemistry division



Source: US EIA, Research Dynamics (Value in trillion cubic feet)

Technological advancement and innovation to spur growth

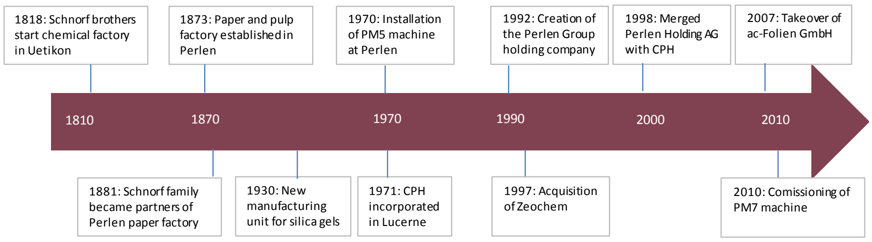
One of the CPH's strategies is to invest in newer technologies and come up with innovative products, which will aid growth of its top-line. In the Paper division, the group replaced the old paper machine with the technologically advanced PM7 machine. The PM7 machine, which is in its ramp-up stage, helped CPH increase newsprint sales volume by 8.9% y/y in FY2013 thereby, cushioning the price decline. Once the machine reaches the optimal stage (expected in FY2015), it will produce 360,000 tonnes of newsprint, almost thrice the output generated by the old machine. In the current times of cut-throat competition, higher volumes will help CPH offset the price decline and enhance its top-line growth.

Similarly, the Packaging division is working on developing new high-margin products. The division generated over 15% of its sales in FY2013 from the innovative products it has brought into the market in the last five years. Also, these products have helped consistently expand EBIT margins from near-zero in 2009 to 6.1% in FY2013. Consequently, CPH is focusing on developing new products, which include high-barrier films such Perlalux Ultra Protect and Steriplus. With high-barrier packaging film global market expected to grow at 5% CAGR over 2014-2019 period, these products should contribute to healthy revenue growth going forward.

GROUP OVERVIEW

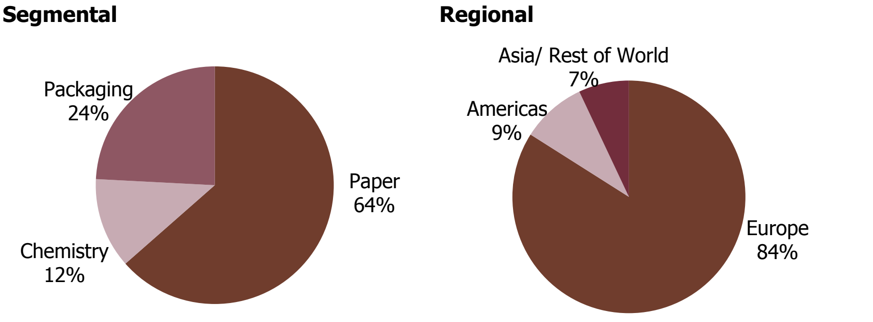
Founded in 1818, CPH Chemie + Papier Holding AG (CPH, the group) is headquartered in Switzerland. CPH operates through three separate divisions – Chemistry, Paper and Packaging. The Paper division manufactures newsprint paper and magazine paper in Perlen, Switzerland and caters mainly to the European market. While, the other two divisions have a global presence. Within the Chemistry division, CPH (under the Zeochem brand) manufactures molecular sieves, silica gels and chromatography gels that are used for industrial applications such as substance separation. In addition, the division also manufactures deuterated solvents. The Packaging division produces a variety of packaging films with distinct features, such as high-barrier films, which are used to make blister packs for pharmaceutical products.

Exhibit 4: Events Timeline



Source: Research Dynamics, Company data

Exhibit 5: Revenue distribution, FY2013



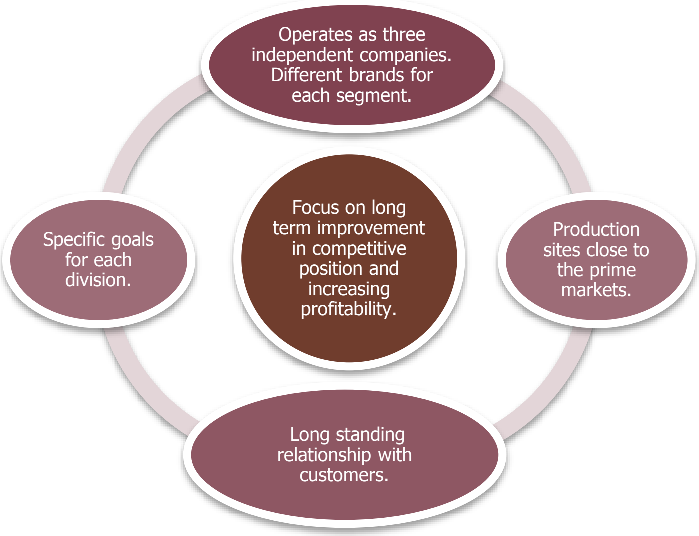
Source: Research Dynamics, Company data

CPH is predominantly a European player; however, over the years the group has managed to increase its presence globally. Americas is the second largest contributor to group revenues. Currently, CPH operates production plants at five locations across the globe. The Chemistry division operates two facilities, one in Switzerland (Uetikon) and one in the USA (Louisville). The Paper division has a plant in Switzerland (Perlen). The Packaging division operates three production facilities in Switzerland (Perlen), Germany (Mullheim) and USA (Whippany). Considering the growth opportunities in the Asian pharmaceutical market, CPH recently announced that it has decided to build a greenfield plant in China, operations at which are expected to commence in 2016.

BUSINESS MODEL

CPH's business model focuses on long-term sustainable improvement in competitive position and increasing profitability. The Group has a mixture of cyclical (paper and chemistry) and defensive (blister packaging) businesses, which underscores this objective. The group is managed under three separate divisions that operate as independent entities and their products are sold under different brand names. The major brands for the three divisions are: Perlen Papier for the Paper division, Perlen Packaging for the Packaging division, and Zeochem for the Chemistry division. For efficient management, a separate business unit head for each division has been appointed, with the group CEO as their reporting head. The group has clearly defined goals for each division: in Paper, CPH targets to become a cost leader, while in the other two divisions, it plans to maintain focus on developing high margin products. The group has strategically positioned itself by having production sites (Switzerland, Germany, the USA, and in China by 2016) close to its prime sales markets.

Exhibit 6: Business model of CPH



Source: Company data, Research Dynamics

Paper

Paper is produced in the group's self-owned facility in Perlen, Switzerland, and 80% of its products are exported to neighbouring European countries. Its key markets within Europe are Switzerland, Germany, Italy and France. The group has long standing relationships with its customers, who are mainly newspaper and magazine publishers. Its key raw materials, waste paper and wood chips from leftover sawmill woods, are procured from local/nearby sources, to reduce transportation costs as well as risk of delay. For most of the fresh wood, the division depends on Swiss forests. For other inputs such as water (large amount of water is used in paper production), the group has in-house facilities to reuse waste water and also hosts its own fresh water reservoirs. On the energy side, CPH has taken a stake in the near-by KVA Renergia from where it will, as part of a collaboration, obtain steam for the Perlen plant. To further reduce its energy requirements, the group has also invested in technologically advanced, energy-efficient machinery, PM7 (see Business Strategy for details). These initiatives are in line with the group's target of making its Paper division a cost leader in its prime sales markets.

Packaging and Chemistry

The group's Packaging and Chemistry divisions, unlike Paper, have diversified global exposure, and operate through sites in Switzerland, Germany and USA. Packaging products are marketed solely under the 'Perlen Packaging', while Chemistry products are branded under the Zeochem (major brand) and CU Agro Deutero AG brands. Both divisions emphasize on product innovation, and focus on delivering high-quality, high-margin products. Both divisions have sales collaborations spread across the globe, which are responsible for product distribution. In 2012, the Chemistry division strengthened the base of its sales agents in China and the Far East, while the Packaging division enhanced its presence in China, Japan and Eastern European markets. For deeper understanding of the packaging market in South America, initiatives for closer sales collaboration with a local partner were taken.

Exhibit 7: CPH Footprint

Headquarter	Production centres		
	Paper	Packaging	Chemistry
Switzerland	Perlen-Switzerland	Perlen-Switzerland	Uetikon-Switzerland
		Mullheim-Germany	Louisville-USA
		Whippany-USA	
		China (on stream in 2016)	

Source: Company data

BUSINESS UNIT OVERVIEW

CPH operates three separate divisions: Chemistry, Paper and Packaging.

Exhibit 8: Sales and EBIT distribution (FY2013)

Business Unit	Sales (CHF mn)	% of group sales	EBIT* (CHF mn)	EBIT margin (%)
Paper	306	63.5%	-30	-9.7%
Packaging	116	24.2%	7	6.1%
Chemistry	59	12.3%	-5	-8.9%

Source: Research Dynamics, Company data *before impairment

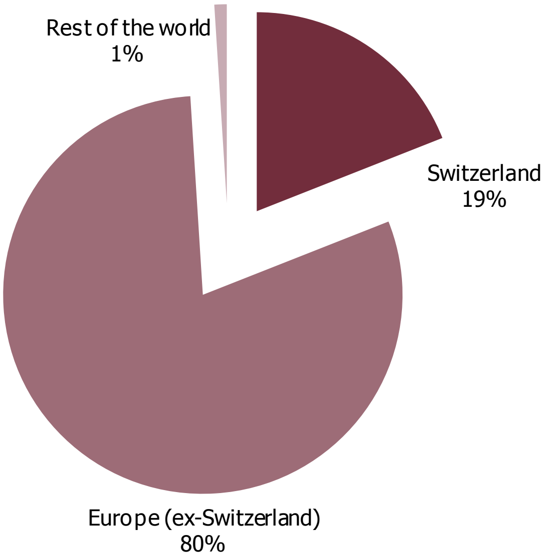
Paper (64% of FY2013 sales)

Paper division manufactures newsprint and magazine papers under the brand name 'Perlen'. Paper is produced at its only manufacturing facility at Perlen, Switzerland. Recently, a new technologically advanced machine PM7 with a nameplate capacity of 360,000 tonnes was installed and full ramp up is expected by 2015. This complements an existing machine, which has a paper producing capacity of 200,000 tonnes. Geographically, Europe (excluding Switzerland) is the largest market for this division, with revenue contribution of about 80%. The group derives 19% of its revenues from its domestic market, Switzerland and claims to be the largest manufacturer of newsprint paper and the only manufacturer of magazine paper in Switzerland. Its end-consumers are primarily newspaper and magazine publishing companies.

Exhibit 9: Paper manufacturing

Source: Research Dynamics, Company data

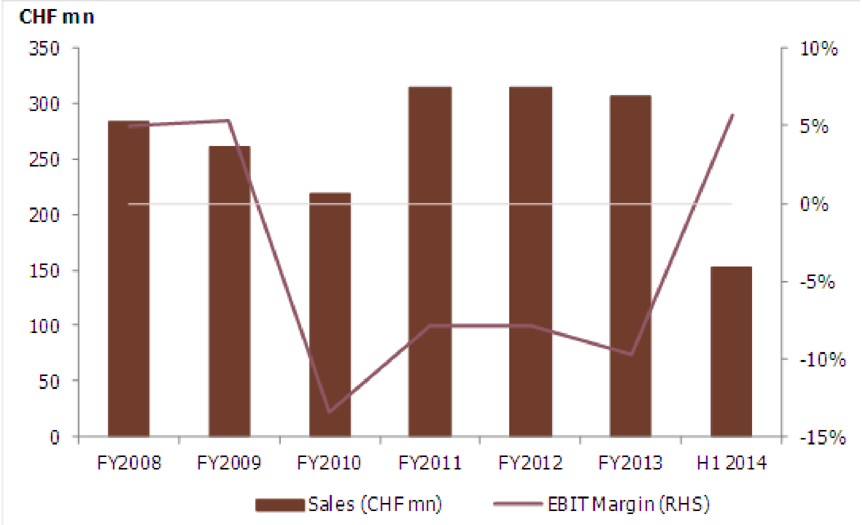
Exhibit 10: Regional distribution



Source: Research Dynamics, Company data

Paper division's operating performance has been volatile over the last six years. Sales were supported by volumes to a great extent; however, profitability suffered due to weak pricing environment in the industry, not least caused by unfavourable currency developments (see Industry Overview and Competitive Landscape). The division turned loss making at the operating level in FY2010 and only started to become profitable as of 1H 2014 as EBIT margin reached 5.7%.

Exhibit 11: Sales and EBIT trend (Paper division)



Source: Research Dynamics, Company data

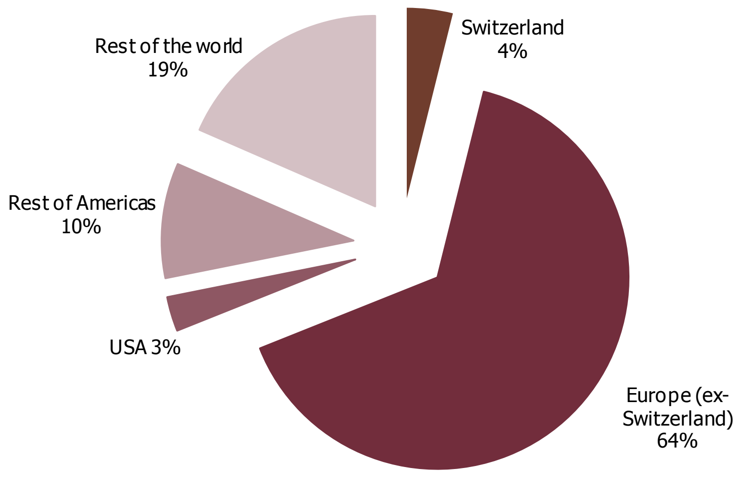
Packaging (24% of FY2013 sales)

This division manufactures an extensive range of PVC mono-films and coated PVdC high-barrier films, which are primarily used in making blister packs for medicines. The group claims to be the world's third-largest producer of coated films. It is relatively better diversified geographically and derives more than 30% of its sales from regions outside Europe and Switzerland. Its primary end markets are the pharmaceutical and pharmaceutical packaging industries. There are three production facilities for packaging based in Switzerland, Germany and the USA.

Exhibit 12: Packaging division products

Source: Research Dynamics, Company data

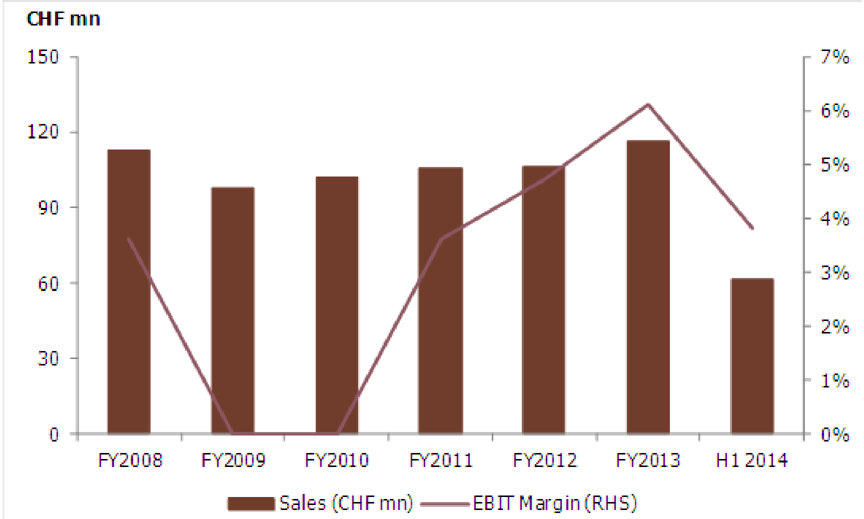
Exhibit 13: Regional distribution



Source: Research Dynamics, Company data

This business has weathered the recessionary phase (post-2008) reasonably well as compared to the other businesses: it is the group's only division to generate positive EBIT (with improved margins) over the last five years. Even on the sales front, after the dip in FY2009, the sales continued to rise.

Exhibit 14: Sales and EBIT trend (Packaging division)



Source: Research Dynamics, Company data

Chemistry (12% of FY2013 sales)

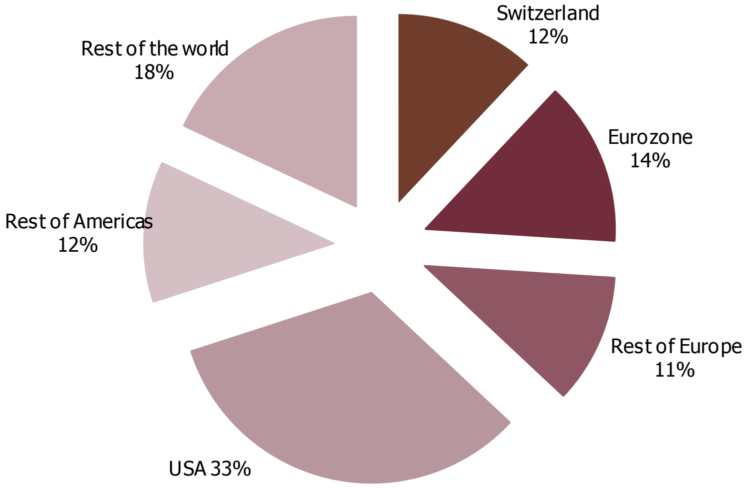
The Chemistry division manufactures and sells industrial chemicals under the 'Zeochem' brand. Its products include molecular sieves and chromatography gels. Molecular sieves are used in applications requiring dehydration by absorbing water or molecular separation/ purification. Zeochem's molecular sieves are required in a number of fields such as energy (natural gas, petrochemicals, refining), medicine (medical oxygen) and automobiles (air brakes in heavy vehicles). Chromatography gels are used for applications, which require substances to be separated based on the molecular size or polarity. Chromatography gels are most widely used in the pharmaceutical and natural extract industries. The Chemistry division also manufactures deuterated solvents such as deuterium gas.

Exhibit 15: Molecular sieves for natural gas purification, ethanol and Industrial gas production

Source: Company data

The division operates two manufacturing facilities in Uetikon, Switzerland and Louisville, USA. The Uetikon plant has been hit by the slowdown in demand from the markets served out of Switzerland in recent years, and is currently not running at full capacity. On the other hand, the Louisville plant is witnessing among others good demand from the shale gas industry in the USA and the ethanol industry in South America. Geographically, this is the most diversified division, only 29% of its sales are derived from Switzerland and Europe collectively, it has significant exposure to the US market; comprise 33% of its sales.

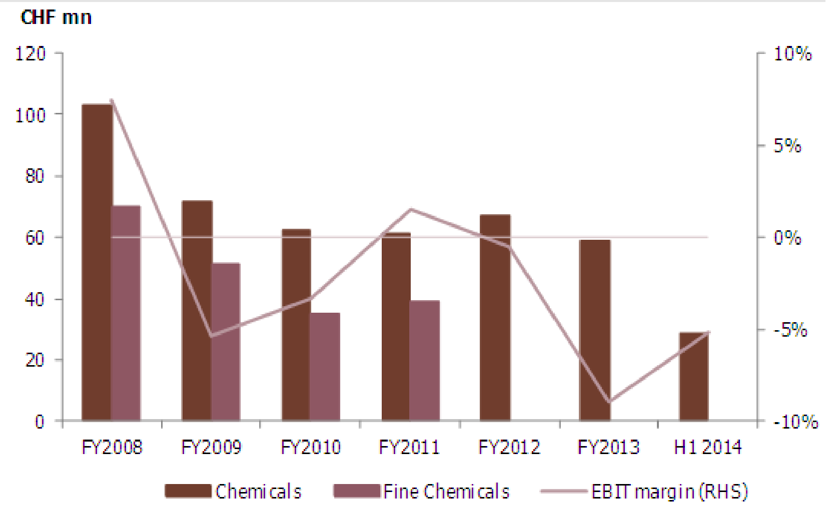
Exhibit 16: Regional distribution



Source: Research Dynamics, Company data

Given its exposure to cyclical industries, this division is the most sensitive to business cycles. As visible from the below chart, its sales declined substantially in FY2009 and FY2010, the worst years for all the cyclical industries. Its sales recovered slightly in FY2011, but were down again in FY2012 as in a bid to focus on core business, the group disposed off its fine chemistry operations (which contributed CHF 39mn to the FY2011 sales) in the last quarter of FY2011. However, with the global economy at the turn of recovery, this division may benefit from improvements in macroeconomic fundamentals. Moreover, the US market for shale is booming and this should bode well for the division.

Exhibit 17: Sales and EBIT trend (Chemistry division)



Source: Research Dynamics, Company data

BUSINESS STRATEGY

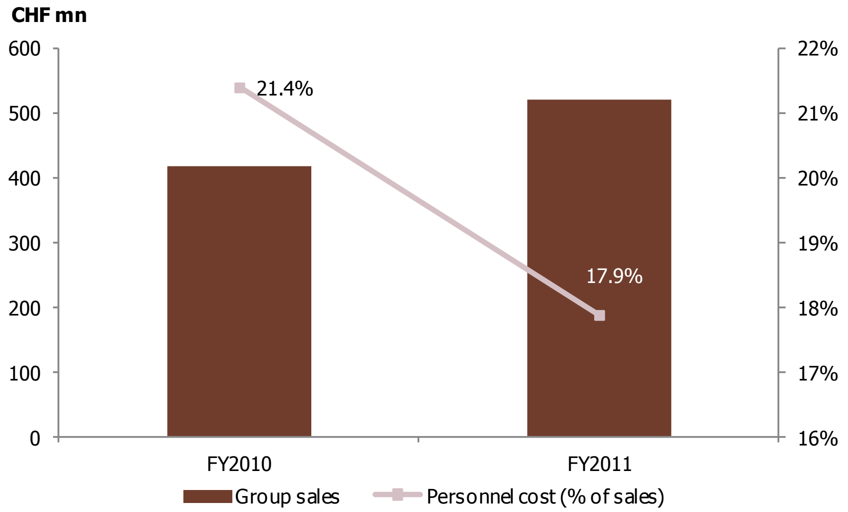
Given the adverse demand-supply dynamics in the paper industry (explained in Industry Overview and Competitive landscape), CPH is unable to look at that business as an overall group's sales growth driver, at least in the near-term. So the group plans to achieve its targeted growth through the Chemistry and Packaging divisions while improving profitability in the paper business by implementing cost rationalization initiatives.

Paper

As highlighted above, CPH has a clear strategy to be a cost leader in the European graphic market, which is currently suffering from over-capacity issues. This implies a bleak pricing environment in the foreseeable future, which hampers the group's growth prospects, in terms of top-line growth as well as profitability. The group's PM7 machine which is currently running at a capacity of just over 300,000 tons has a potential to increase it to up to 360,000 tons by FY2015, partially compensating the lower prices with higher volumes. Keeping the above factors in mind along with the commoditized nature of this business, we believe that a cost-minimization strategy appears to be the most effective way to achieve the group's long term target of sustainable improvement in competitive position and increasing profitability.

In line with this, CPH has undertaken numerous measures to save costs in the recent years. Its decision to replace ageing PM5 with state-of-the art PM7 machine in FY2010 is a major initiative on this front. The PM7 is a technologically advanced machine that increased the newsprint capacity by nearly three times with no increase in personnel. The benefits of this were visible in the first year itself. In FY2011, group sales grew by 25% y/y with a 44% y/y growth in paper sales, and group personnel expenses as a proportion of sales declined by 3.5 percentage points y/y to 17.9%. The machinery also brings energy efficiency benefits.

Exhibit 18: Benefits of PM7 machine



Source: Research Dynamics, Company data

<u>Outlook:</u> The group remains focused on reducing its cost base. It expects a reduction of around 10% in power costs on full ramp-up of the PM7. In addition, to reduce raw material costs, the group is placing increased emphasis on increasing procurement of recovered paper in Switzerland. To save on energy costs, the group decided to switch to the free electricity market starting 2014, which is expected to result in annual cost savings of CHF 10mn. Moreover, the 10% stake in Renergia, which will commence operations in 2015, will enable the paper division to virtually do away with fossil-based steam generation reducing energy costs and getting CO_2 neutral. Based on these initiatives and no further significant deterioration in paper prices, we expect revenues to grow at 3.6% CAGR over the next three years to reach CHF 340mn in FY2016E. Thanks to a good show in H1 2014, we expect EBIT for FY2014E to turn black (after four years of negative EBIT) with EBIT margin reaching mid to high single-digit levels over the next three years.

Packaging

CPH's strategy for the Packaging division is two-pronged:

1. Revenue growth through expansion in new and fast-growing markets
2. Margin expansion by focusing on high-margin products

CPH plans to improve group profitability through increasing sales of higher-margin products. The division is currently expanding its higher-margin high-barrier film product line, including development of Perlalux Ultra Protect (a complex composite with double the protective qualities of other high-barrier films) and Steriplus (sterile packaging of medical equipment). In 2013, the division generated over 15% of its sales from high-margin products that had been developed during the last five years. This unrelenting focus on margin expansion has yielded good results in the last five years with EBIT margins for the division expanding from near-zero in 2009 to 6.1% in 2013.

The Packaging division has witnessed strong demand from the Asia-Pacific region (double digit in 2013 and expected to be as strong till 2018) and plans to focus on further increasing its business from this region. China, with a push from its central government to grow export-driven high quality pharmaceutical manufacturing, is one of the key markets for the Packaging division. Along with internal growth, CPH is also open to exploring the option of growing through the inorganic route. To further increase the division's presence in China, management has decided to invest in a manufacturing plant which shall commence operations in 2016. Other focus regions for the group include the Asia-Pacific countries and Latin America, while maintaining and even growing market share in its largest market, Europe.

Outlook: We expect the top-line to grow at a CAGR of 5.6% (FY2013-FY2016E) to reach CHF 137mn. With continued focus on higher-margin products, we anticipate the division's EBIT margin to expand to 6.5% in FY2015E and 7% in FY2016E.

Chemistry

The group aims to implement the same two-pronged approach in the Chemistry division, as in its Packaging division.

The Louisville plant of the Chemistry division has been supporting the division's sales performance in 2013, as it witnessed strong demand from the shale gas industry in the US and the ethanol purification processors in South America. Going forward, both these industries are expected to witness strong growth and drive revenue growth for the division. Asia, because of its high expected growth could be the main demand driver for the Chemistry division. To address this demand, the group plans to increase its presence in the country. Further, it has identified the Far East as another target region from where it expects demand to grow strongly in coming years.

For its profitability targets, the Chemistry division plans to focus on high-quality higher-margin products and intends to increase the sales contribution from such materials. To this end, it has identified medicinal oxygen as a major product. The market for medical oxygen was estimated to be USD 242.5mn in 2012 and is expected to grow by a CAGR of 34.2% till 2019 to reach USD 1.9bn, led by increased demand in emerging countries due to their rising purchasing power and poor air quality. Therefore, thanks to exposure to some addressable sub-markets, the chemical division should see reasonable demand for its products. Another high-margin product group identified by the group is gel products for complex separation and odour adsorption.

Currently, this division's major concern is competitive pressure in the markets served out of Switzerland. The group caters to this region from its high-cost producing facility at Uetikon (Switzerland). This facility is very close to Zurich, which has one of the highest labour costs in the world, making products manufactured at this facility less competitive compared to the low-costs products of Asian players.

Outlook: The division's revenues are expected to grow by 5% and 4% in FY2015E and FY2016E respectively. Based on the above measures, we expect the division to break-even at EBIT level in FY2015E and achieve an EBIT margin of 3.5% in FY2016E.

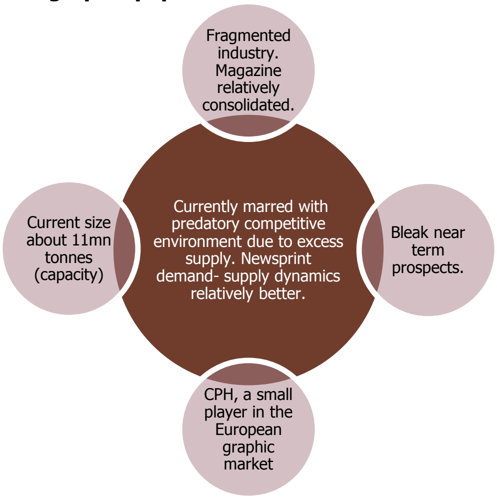
INDUSTRY OVERVIEW AND COMPETITIVE LANDSCAPE

All the three markets that CPH operates in are fragmented in nature and given the group's relatively smaller market share, CPH faces stiff competitive pressure in each of its businesses.

Paper

The European news and magazine paper market, currently sized around 11mn tones (8mn tones in newspaper segment and around 3mn tones in magazine & supplements market) is fragmented in nature with presence of both vertically integrated entities (UPM, Holmen, etc.) and pure-play entities (Norske Skog, Sappi, etc.). Newsprint is relatively more fragmented, with the top five producers comprising 65% of the market, while magazine (top five producers share: uncoated: 87%, coated: 78%) is more consolidated. UPM is the market leader in both the grades followed by Stora Enso (refer to Exhibit 20). CPH states that it has a market share of close to 5% in the European newsprint and magazine market, each, while the group has substantial market share of more than 30% in its domestic market, Switzerland, in each of the grades.

Exhibit 19: European graphic paper market scenario



Source: RISI, DNB Markets, Holmen IR presentation, Research Dynamics

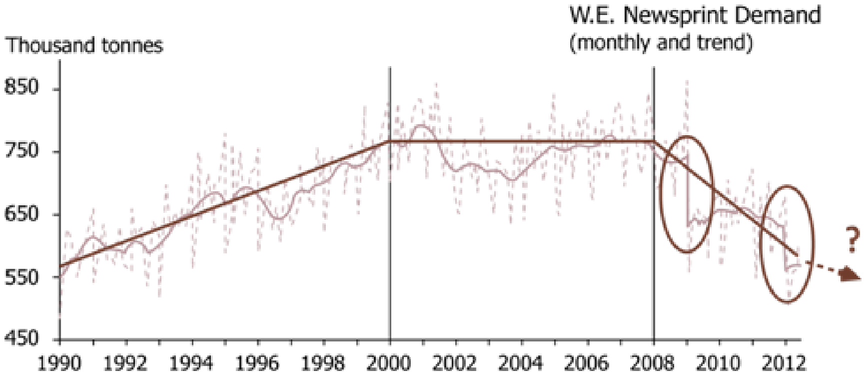
Exhibit 20: Market share by capacity

Newsprint capacity		Magazine capacity			
Company	Market share	Coated magazine	Market share	Uncoated magazine	market share
UPM	20%	UPM	31%	UPM	39%
Stora Enso	18%	Stora Enso	13%	Stora Enso	21%
Norske Skog	11%	SAPPI	13%	Holmen	12%
Palm	9%	Burgo Group	13%	Norske Skog	8%
Holmen	7%	Norske Skog	8%	SCA	7%
Others	35%	Others	22%	Others	13%

Source: RISI, DNB Markets, Research Dynamics

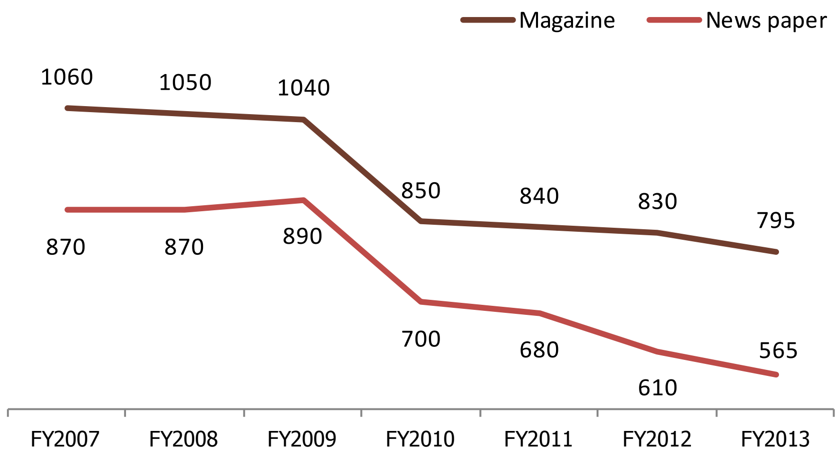
Currently, the industry is witnessing predatory competitive environment due to poor demand-supply dynamics. In 2013, demand for newsprint in Europe was down 6% y/y, while magazine declined by 8% y/y. Given its high sensitivity to business cycle, continued fall in demand following the global economic crisis has resulted in excess supply in the industry, weakening the pricing scenario in the industry (refer to exhibit 22). Although companies have taken initiatives to improve the operating environment by cutting down capacity (around 6.6mn between 2005 and 2011, with announcement of further cuts in late 2012 and 2013), still a lot needs to be done. The fragmented nature of the industry is one of the major hurdles in meaningful restructuring initiatives.

Exhibit 21: Trend of Western European newsprint demand



Source: Company data, Research Dynamics

Exhibit 22: Magazine and newspaper price trend (CHF/ton)



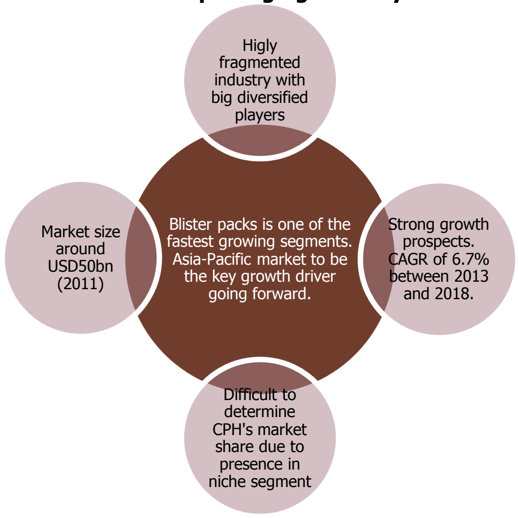
Source: Company data, Research Dynamics

In newsprint, following closure of around 1mn tonnes of capacity in 2013, the demand and supply situation looks relatively more balanced, indicating better pricing going forward. However, demand prospects are still bleak: according to CPH, there could be a 6% y/y decline in newsprint paper demand in 2014. At the same time, for magazine, which is still flooded with about 1mn tonnes of overcapacity, any respite on the pricing front in the near term looks difficult. However, with the European economy at the turn of a recovery, the possibility of the industry dynamics further worsening looks limited.

Packaging

CPH is specialized in pharmaceutical packaging, and the group claims that it is the third-largest supplier of PVdC coated high-barrier films worldwide. According to the Pharmaceutical Packaging Industry 2011 Yearbook, the global blister packaging market was sized at around USD 8.1bn, which was around 17% of the global pharmaceutical packaging market. Although the importance of blister packaging is set to rise in the coming years, its highly niche nature has led to limited studies and in-depth growth forecasts for the segment. Considering this, we believe that the best proxy to understand growth prospects for blister packaging would be the global pharmaceutical packaging industry.

Exhibit 23: Global Pharmaceutical packaging industry scenario



Source: Markets and Markets, Transparency Market Research, Research Dynamics

The global pharmaceutical packaging market is highly fragmented, with presence of diversified conglomerates (such as Honeywell International and 3M), pure-play packaging companies (such as Amcor), and various private players alike. According to Transparency Market Research, the global pharmaceutical packaging market was valued at USD 50.1bn in 2011, and is expected to reach USD 73.0bn by 2018, growing at a CAGR of 5.6% from 2012 to 2018. Regionally, Asia Pacific, a major generic manufacturing market, is expected to be the fastest growing region, driven by the ongoing trend of branded products going off-patent. In addition, supportive government initiatives and aging population are also the major factors. The market in Asia Pacific is expected to reach USD 20.6bn by 2018.

A report by Markets and Markets, published recently, provides more optimistic growth prospects: it expects the global pharmaceutical packaging market to grow at a CAGR of 6.7% from 2013 to 2018 to USD 78.8bn.

Exhibit 24: Players in the packaging (includes Pharmaceutical and others) industry

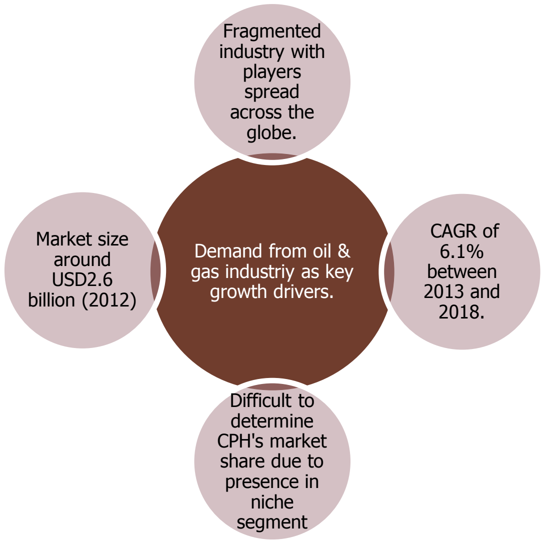
Diversified & Pure-play (includes listed and private players)
Meadvestwaco
MacFarlane Group
Gerresheimer
Klöckner Pentaplast
Convertidora Industrial
PSB Industries
Astrapak Ltd.
Bilcare Ltd.
Gallazzi Group
ACG (India)
Tekniplex

Source: Markets and Markets, Transparency Market Research, Bloomberg, Research Dynamics

Chemical

CPH's chemical division sells absorbents such as molecular sieves and chromatography gels. The absorbent industry (includes Molecular Sieves, Activated Carbon, Silica Gel, Activated Alumina, Clay) with a size of USD 2.6bn is fragmented and includes big names such as Germany-based BASF, US-based Honeywell, and private players such as Axens from France. As per industry studies, the global absorbent market is sized at USD 2.6bn (2012). Strong demand from oil & gas refining and wastewater treatment is expected to boost absorbent industry. Globally, the market is projected to grow to USD 3.8bn by 2018, registering a CAGR of 6.1% between 2013 and 2018.

Exhibit 25: Global absorbent industry scenario



Source: Markets and Markets, Research Dynamics

Exhibit 26: Major listed players in the chemistry industry

Diversified & Pure-play (includes listed and private players)
Honeywell Int. (UOP Division)
Arkema (CECA Division)
WR Grace & Co.
CWK Leipzig
Anten Chemicals
Eurisotop
Small local players in China

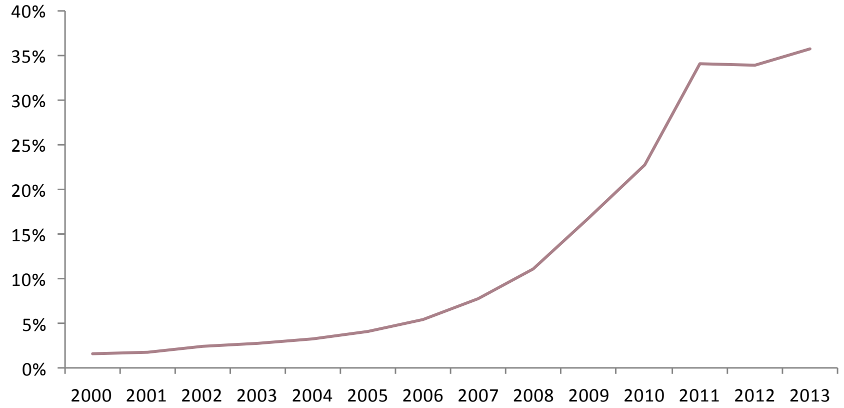
Source: Markets and Markets, Bloomberg, Research Dynamics

GROWTH OPPORTUNITIES & KEY DRIVERS

Boom in shale gas activity to drive demand for Chemistry division

One of the major developments in the global energy industry, in the recent years, has been the shale gas boom. Though, currently largely confined to the US, its economic success has encouraged other countries to follow suit. The shale gas extraction in the US dates back to as early as 1970's; however, its poor economic viability had put a lid on its growth. As visible from the chart, in the year 2000, its share was mere 1.6% to the total US natural gas production. However, in the last decade, production of shale gas grew at a break-necking speed, increasing its share to 23% by 2010. The major factors that drove this development are technological innovation, government policies, private participation and high natural gas prices.

Exhibit 27: US Natural Gas Production from Shale 2000-2013

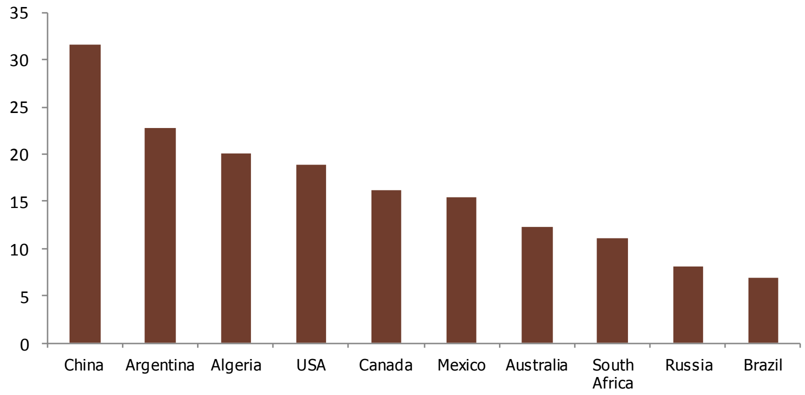


Source: US EIA

The future looks to be further promising, according to the US Energy Administration's projection, shale gas production is expected to grow at a CAGR of 4% from 7.8 trillion cubic feet in 2011 to 11.05 trillion in 2020.

Among the other countries that are emphasizing on growing its shale gas market, China appears to be a strong contender to replicate the success currently being enjoyed by the US. According to the US Energy Information Administration, China's technically recoverable shale gas resource potential is estimated to be 31.6 trillion cubic metres, 68% more than the US and the highest in the world. China's energy demands are expected to be 71% higher than current levels by 2035. To meet this fast-growing demand, China is planning to increase its shale gas production significantly and has set a target of achieving 0.2 trillion cubic feet of shale gas production in 2015 and plans to ramp it up to 2-3.5 trillion cubic feet by 2020.

Exhibit 28: Technically recoverable shale gas resources (in trillion cubic metres)



Source: Research Dynamics, US Energy Information Administration estimates

The Chemistry Division places major emphasis on the US market. The group has a production site in the US in Louisville and its chemistry division derives major chunk of its sales from the US region (33%). The group's improving presence in the Americas region places it favourably to reap the benefits of this opportunity. Realization the opportunity in the Chinese market, the group's chemistry division which currently has relatively lesser exposure, embarked on a strategy to boost its presence. In FY2012, CPH entered into new distribution agreements in China and have plans to further strengthen its presence going forward.

Growing Pharmaceutical packaging market in Asia-Pacific region and blister packaging in the US

As discussed above in the Industry Overview and Competitive Landscape section, the global blister packaging market offers strong growth potential. Regionally, the US and particularly the Asia-Pacific market offer unprecedented opportunities. Traditionally, the US has been the largest market for the global pharmaceutical packaging industry, dominated mainly by bottle packaging. Blister packaging share in the US has been relatively low. However, post the favourable FDA regulation, the blister packaging sales have gained pace in the recent years. FDA mandates all prescribed pharmaceuticals dispensed in hospitals and nursing homes to be packaged in unit dose formats with barcodes to reduce dispensing errors. Blister packaging provides moisture and oxygen resistance, transparency and durability which helps in improving safety and efficiency. According to TechNavio, the US blister packaging market is expected to grow at a CAGR of close to 6% between 2013 and 2018.

The opportunity in the Asia-Pacific region papers to be even better. Factors such as ongoing trend of branded products going off-patent, supportive government initiatives and aging population are expected to boost demand for pharmaceutical packaging market in this region. According to Markets and Markets, in 2012, North America, Western Europe, and Japan dominated the pharmaceutical packaging market accounting for more than 70% market share. The study claims that by 2018, Asia-Pacific will overtake both North America and European pharmaceutical packaging market, growing at a double digit CAGR between 2013 and 2018. The optimism is also confirmed by CPH's outlook for packaging division for 2014, the group guides for a repeat of double-digit growth for Asia it witnessed in FY2013.

The division derived around 13% (FY2013) of its sales from the Americas region (includes US) and about 19% from the Rest of the World, which includes Asia-Pacific region. As highlighted in our Business Strategy section, the group is planning to boost its exposure in the Asia-Pacific region by increasing its presence in the Chinese market and the group is exploring both organic and inorganic routes.

SWOT ANALYSIS

Strengths	Weaknesses
1. Advanced technological provides an edge 2. Chemistry division's presence in fast-growing Americas region 3. Healthy financials to support growth	1. Production sites in high costs regions 2. Structural issues in the group's major business 3. High concentration of sales in Europe
Opportunities	**Threats**
1. Increasing Asian pharmaceutical demand for packaging 2. Strong demand expected in key markets for Chemistry division	1. Rapid growth of digital readers could further reduce paper demand 2. Rise in energy prices may hurt margins

Strengths

Advanced technological provides an edge

CPH is strongly placed in terms of technology as compared to its industry peers due to its pro-active investments and sustained R&D efforts. Perlen Paper's PM7 machine, which replaced the PM5 for newsprint manufacturing, not only provides additional production capacity but also ensures lower production costs. In the Packaging division, the group has multiple patents and a number of award-winning products. For instance: Perlalux-Identity is a unique, patented system which provides anti-counterfeiting solution for blister films. Perlalux-Tristar ultra provides highest barrier protection for hygroscopic products. The Chemistry division has also secured patents for its zeolite manufacture technology and applications. This gives CPH a distinct competitive advantage and fortifies the group's growth prospects.

Chemistry division's presence in fast-growing Americas region

The energy industry in North America (especially shale gas) and the ethanol industry in South America have seen strong growth over the last few years. According to PwC, the shale gas industry in the US has grown at a CAGR of 26% over 2004-2011. Meanwhile, the fuel ethanol industry in South America has grown at a CAGR of 7.2% during the 2001-2011 period. Chemistry division manufactures molecular sieves which are used in purification of natural gas, ethanol, etc. The revenue contribution from the Americas region to the Chemistry division grew from 32% in 2010 to 45% in 2013, indicating the importance of this region for the group. The group has a production site in the US in Louisville and the division derives major chunk of its sales from the US region (33%). The group's improving presence in the Americas region places it favourably to reap the benefits of the future growth prospects of these key industries.

Healthy financials to support growth

Over the past decade, pharmaceutical manufacturing bases have shifted from the developed countries to the low-cost emerging markets in Asia. By leveraging its expertise in the packaging business coupled with healthy financials (low debt to equity ratio of ~30%), the group has decided to invest in a new facility in China. As per the group's plans, the new plant will come on stream in 2016 and will cater to the Chinese pharmaceutical market. Low leverage levels will enable the group to explore new investment opportunities that will bolster growth going forward.

Weaknesses

Production sites in high-cost regions

A majority of CPH's production is in Switzerland, which has one of the highest labour costs across the globe. This affects the group's competitiveness in terms of product pricing as compared to companies with production in Eastern Europe or Asia. In addition to this, CPH's profitability is highly exposed to currency fluctuations as the group incurs 70% of its costs in Swiss francs, but generates only 15% of its sales in that currency. In order to counter this, the management is eyeing capacity growth through greenfield investments or acquisitions outside Switzerland.

Structural issues in the group's major business

The group's financial performance is highly dependent on its paper division as it comprised 64% of group sales in 2013, up from just under 50% in 2008. Currently, the paper industry is facing structural issues such as overcapacity and demand pressure from increasing penetration of digital media. This has led to fiercely competitive pricing environment, which has consequently hampered the overall group. The management is looking to rectify this situation by focusing on growing other divisions, thus reducing its reliance on the Paper division.

High concentration of sales in Europe

Over 80% of CPH's sales is concentrated in Europe and this has been the trend for many years now. According to the IMF World Economic Outlook, the Eurozone witnessed de-growth in 2012 and 2013 and although improvement is expected in the coming years, the region is forecast to achieve only 1.2-1.5% growth over 2014-2015. This is significantly lower than the average global economic growth of 3.7% during this period. The high exposure to this slow growth region is expected to be a drag on overall group performance. CPH in a bid to reduce its dependence on Europe, plans to increase sales in the Asia region. The group intends to achieve this by enhancing penetration of the Packaging and Chemistry divisions in the region.

Opportunities

Increasing Asian pharmaceutical demand for packaging

According to Markets and Markets, the overall global pharmaceutical packaging market is expected to grow at a CAGR of 6.7% till 2018. Growth is expected to be especially strong in the Asia-Pacific region (refer to Industry and Competitive Landscape), led by increasing demand from the major markets of China and India. The region is expected to grow in double-digits till 2018 and become larger than the North American & European markets. This provides CPH's Packaging division a strong focus area for revenue growth in the coming years.

Strong demand expected in key markets for Chemistry division

The shale gas and bio-fuels (especially ethanol) markets are expected to be the major growth drivers for the Chemistry division. According to a PwC report, shale gas production in the US is expected to grow at a CAGR of 7.3% till 2035. Meanwhile, the bio-fuels industry is expected to grow significantly in the coming years, led by increasing use of ethanol in automobile fuel blending. According to an International Sugar Association study, the global fuel ethanol market is expected to grow at a CAGR of 8.6% till 2020. These two markets collectively should continue to spur substantial revenue growth for the Chemistry division.

Threats

Rapid growth of digital readers could further reduce paper demand

The fast growth in smartphones, tablets and e-book readers has meant that an increasing percentage of subscribers now prefer to consume reading content online rather than the traditional print format. Such a change in customer preference has hit the circulation numbers of all newspapers and magazines, which in turn, has reduced the demand for paper. The global newspaper circulation has declined over the last five years. However, Europe saw the most pronounced decline (-26.5% in 2008-2013). Overall demand for paper in CEPI member countries fell from 82.1mn tonnes in 2000 to 77.4mn tonnes in 2012 (-5.7%). According to industry studies, in 2012, younger readers (age-bracket of 14-44) in the UK were more likely to read newspapers over a laptop, while print was the preferred format for only 39% of the readers, down from 75% in 2011. The growing usage of digital-reading devices (especially in developing markets, where paper demand is still strong) will further affect the circulation numbers and consequently the demand for paper.

Rise in energy prices may hurt margins

CPH moved from the regulated electricity market to the free market in 2014 with a two-year contract. The group estimates the transition to save approximately EUR 10mn a year in power costs. We believe the savings, in partial, may come on the back of subdued electricity prices as macroeconomic conditions remain sluggish in the region. However, as economic situation improves, energy prices may rise and this would be detrimental for CPH as its operations are energy-intensive. Meanwhile, the group cannot go back to the regulated market due to the prevailing contracts. In this event, CPH will have to pass on higher costs to its customers to preserve or boost the margins, and this can be a difficult task for the group considering that it is a small player (and thus a price-taker) in the market, which is dominated by large players like UPM, Stora Enso and Norske Skog.

PORTER FIVE FORCES ANALYSIS

Barriers to Entry: From the perspective of technological edge or capital investments, the three divisions that the group operates in (Paper, Packaging and Chemistry) pose varying barriers to entry. In paper, which is a low margin business, initial investments are high limiting the entry of new players. Similarly, entry into the pharmaceutical packaging business is tedious as it requires regulatory approvals, which require a long time to come through dissuading new players. Meanwhile, barriers to entry in the chemistry business are relatively low. The group benefits from factors such as long-standing customer relationships and localisation deterring new players. Thus, barrier to entry can be concluded as **medium** for the overall group.

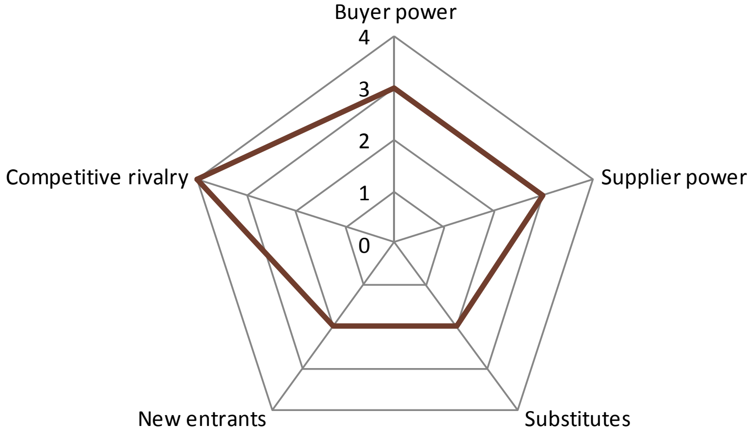
Bargaining power of buyers: All the three markets; paper, packaging and chemistry are fragmented in nature with presence of players having strong financial muscle. Currently, the bargaining power of buyers, especially in paper, is significantly high given the unfavourable industry dynamics (overcapacity). In chemistry, the end customers are major industrial, energy companies, etc. that have high negotiation power. Packaging, that serves the quality conscious pharmaceutical industry needs to focus on quality as any issues related to it pose a significant risk to the operations. Thus, the bargaining power of buyers is **high**.

Bargaining power of suppliers: The group depends mainly on recovered paper and woodchip from sawmill operations for its paper manufacturing. Given the fragmented nature of the paper industry and relatively better demand-supply dynamics for recovered paper market in Europe, the negotiating position of the suppliers appears to be relatively strong. The largely stable prices of recovered paper in Europe in the last one year when paper prices continued to fall is also an indication of the same. At the same time, the markets for other two divisions are also fragmented in nature. Given CPH's relatively smaller share compared to its peers, bargaining power of suppliers appears to be **high**.

Competition: All the three markets face stiff competitive pressure. In paper, players range from vertically integrated to pure-play producers. Currently, the paper market is struggling with predatory competitive scenario as overcapacity continues to haunt (see Industry and Competitive Landscape). The packaging industry is fragmented and involved a broad range of players including smaller players such as Gallazzi or ACG from India, which cater the pharmaceutical market. The chemistry segment too has diverse and global players, and among them are niche players such as Anten Chemicals, Clariant and Eurisotop. Competition in all the industries that the group operates in can be said to be **very high**.

Threat of substitutes: Paper has a significant threat from substitutes due to the emergence of digital media. This trend, which started in 2000 brings a structural change in the paper industry threatening its existence in the long term. In contrast, the other two divisions; packaging and chemistry that produce high barrier films for blister packaging and chemical absorbents currently do not face immediate threat of substitute from any products. As the other two divisions are currently better placed than Paper, the threat of substitutes for the overall group can be said to be **Medium**.

Exhibit 29: Porter five forces conclusion



Source: Research Dynamics

VALUATION

We believe DCF methodology is apt for valuing CPH as the group has passed through the entire business cycle over the past decade. We have forecasted the fundamentals and used DCF methodology to arrive at the target price. We have also used Relative Valuation technique, details of which are given below.

Using discounted cash flow (DCF) methodology, the intrinsic price of the group comes to CHF 1,522. Our weighted average cost of capital (WACC) of 8% is in line with group's figures and is based on a cost of equity of 10.2% and a pre-tax cost of debt of 2.8%. We have considered a beta higher than that indicated by regression due to the group's small size and vulnerability to macro-economic events. We have explicitly forecasted cash flows till FY2023E and thereafter assumed a terminal growth rate of 1%.

Exhibit 30: Sensitivity of WACC & terminal growth rate with the share price

Sensitivity Table					
Terminal growth rate \ WACC	6.0%	7.0%	8.0%	9.0%	10.0%
0.25%	1,954	1,647	1,416	1,237	1,093
0.50%	2,021	1,693	1,449	1,261	1,112
0.75%	2,095	1,742	1,484	1,287	1,131
1.00%	2,175	1,796	1,522	1,315	1,152
1.25%	2,265	1,854	1,562	1,344	1,174
1.50%	2,364	1,917	1,606	1,375	1,197
1.75%	2,475	1,987	1,653	1,409	1,222

Source: Research Dynamics

There are no exact comparables available for CPH, as it operates three completely independent divisions with no synergies between them. In order to value the group on a relative basis, we have prepared a separate set of industry peers for each of CPH's divisions. Specifically for the Paper division, we have focused on European peers given that 80% of the paper products are sold in Europe. We have considered Swedish paper manufacturer Holmen, Finnish companies Stora Enso, Metsa Board, UPM-Kymmene, Portugal-based Altri, Norway-based Norske Skog and the UK-based James Cropper. For the Chemistry division, we have compared CPH with Honeywell, Clariant and Arkema and WR Grace & Co. For the Packaging division, we have shortlisted PSB industries, Meadvestwaco, MacFarlane Group, Gerresheimer, West Pharmaceutical Services and Astrapak Ltd.

We have considered three widely used parameters, EV/EBITDA, P/S and P/E to show the relative valuation of the group. We have first 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. We believe that this consolidated peer average is most comparable to CPH's valuation multiples, given its diversified business model.

Exhibit 31: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
CPH Chemie & Paper	14.1x	9.7x	8.0x	0.8x	0.7x	0.7x	2.6x	48.7x	19.2x
Paper Peers									
Holmen	7.8x	7.3x	6.8x	1.0x	1.2x	1.1x	15.2x	16.0x	14.1x
Stora Enso	6.3x	6.9x	6.4x	0.4x	0.5x	0.5x	11.6x	12.7x	10.5x
Altri	7.9x	9.7x	8.8x	0.7x	0.9x	0.9x	10.4x	17.0x	12.9x
Metsa Board	5.8x	6.6x	6.2x	0.4x	0.5x	0.5x	15.2x	15.5x	12.6x
UPM-Kymmene	6.1x	5.3x	5.2x	0.5x	0.6x	0.6x	11.3x	11.6x	11.6x
Norkse Scog	NA	7.3x	8.2x	NA	0.1x	0.1x	88.6x	NA	NA
James Cropper	2.6x	NA	NA	0.3x	0.0x	0.0x	9.1x	14.1x	10.1x
OJI Holdings	NA	9.3x	8.9x	NA	0.3x	0.3x	11.6x	13.6x	12.3x
Chemistry Peers									
Honeywell Int.	8.4x	9.7x	8.9x	1.4x	1.8x	1.7x	14.2x	16.8x	15.2x
Clariant	6.6x	8.0x	7.2x	0.6x	0.9x	0.8x	11.1x	14.1x	11.5x
Arkema	5.4x	5.8x	4.9x	0.7x	0.6x	0.5x	9.8x	12.9x	10.4x
WR Grace & Co.	7.8x	11.0x	9.9x	1.7x	2.1x	2.0x	15.9x	21.2x	17.0x
Packaging Peers									
Meadvestwaco	6.0x	9.0x	8.1x	0.7x	1.2x	1.2x	13.7x	23.5x	19.2x
MacFarlane Group	5.8x	0.1x	0.1x	0.2x	0.0x	0.0x	7.7x	10.3x	9.2x
Gerresheimer	7.0x	8.3x	7.7x	1.0x	1.2x	1.2x	14.2x	17.6x	15.6x
West Pharmaceutical Services	9.9x	11.5x	10.5x	1.7x	2.2x	2.0x	20.1x	24.3x	21.2x
Convertidora	8.4x	8.4x	7.3x	0.4x	0.4x	0.4x	NA	NA	NA
PSB Industries	4.6x	5.6x	5.2x	0.4x	0.6x	0.5x	8.1x	11.6x	10.4x
Astrapak Ltd	4.5x	NA	NA	0.3x	0.0x	0.0x	9.4x	12.0x	7.9x
Bilcare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Overall Peers									
Median	6.2x	8.0x	7.3x	0.6x	0.6x	0.5x	11.6x	14.1x	12.3x
High	9.9x	11.5x	10.5x	1.7x	2.2x	2.0x	88.6x	24.3x	21.2x
Low	2.6x	0.1x	0.1x	0.2x	0.0x	0.0x	2.7x	10.3x	7.9x
Premium (disc.) to peers	128%	35%	9%	40%	23%	27%	(78%)	244%	56%

Source: Bloomberg (data as of 26.9.14)

Exhibit 32: CPH – Comparison with weighted average of division peers

Multiples	EV/EBITDA			P/S			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
Weighted peer multiples	6.2x	7.7x	7.1x	0.5x	0.6x	0.6x	11.1x	14.5x	12.6x
CPH	14.1x	10.9x	8.0x	0.8x	0.7x	0.7x	2.6x	48.7x	19.2x
Premium (disc.) to peers	126%	40%	12%	51%	13%	13%	(77%)	236%	53%

Source: Bloomberg (data as of 26.9.14)

FINANCIALS (HISTORICALS AND KEY FORECASTS)

REVENUE

CPH was on a strong trajectory for revenue growth with 9.8% growth in FY2006 and 16.9% growth in FY2007, with its Packaging division (CAGR of 44%) contributing in a major way. With the financial crisis hitting global business in FY2008, CPH's growth stumbled. From FY2008-FY2010, the group saw three consecutive years of revenue decline (-11.1% CAGR). However, the group recovered spectacularly in FY2011, with a revenue growth of 24.8%, led by a 44% growth in the Paper division. However, this momentum could not be sustained as paper prices declined significantly in FY2012 and FY2013. In addition to this, the European debt crisis significantly weakened the euro against the Swiss franc, which played a significant part in the lower revenues. The overhang of weak paper prices and currency continued and revenues fell steadily in 2013 (-1.5%). However, the downward slope seems to have flattened somewhat, possibly indicating that management's initiatives have started to bear fruit.

Division-wise, Packaging has been the most stable, with its revenue growing in six out of the last eight years, including the last four consecutive years. The division's contribution to the group revenues have doubled in the last eight years. This revenue growth can be attributed to the performance in FY2007, when CPH acquired ac-Folien, a PVC mono films manufacturer. In addition, the group took several steps to increase its production and operational efficiency levels. CPH added a fifth production line to its plant which increased its capacity by 30%.

The Paper division's growth has been marred by first the economic downturn in 2008 and then by weak paper prices in the last two years. However, the addition of the machine to production in FY2011 took the division's revenues to a much higher level. The Chemistry division has lagged over the years with its group revenue contribution dropping from 36% in FY2005 to 12% in FY2013. The sale of two businesses that contributed significantly to the division's revenues was the exceptional factor that played a part in this decline.

A positive performance reported by the paper and the packaging division largely offset the lull performance of the chemistry division resulting in net sales of CHF 242.9mn (0.9% y/y drop) for H12014. Despite the decline in sales, the group reported a positive EBIT of CHF 9.3mn helped by the paper division.

Paper division:

With Paper stabilizing and more of the machine's capacity coming online, we have forecast a 5% growth for the division's revenues for FY2014E and a further 2.8% growth in FY2015E, by when PM7 will be able to contribute its full capacity, which is in line with the group's forecasts. We believe the division will be able to benefit from a consolidation within the paper manufacturing industry and can only grow if prices increase.

Packaging division:

The Packaging division has seen strong demand emerging from the Asia-Pacific region (especially China and India), which could drive the division's growth in coming years. We expect the division to grow by 4% in FY2014E and 7% in FY2015E considering the growing demand. Further to that, the green-field project in China will help boost revenues. Inorganic growth cannot be ruled out for this division sometime in the future, since the group has shown its willingness to explore this route. However, this has not been considered in the forecasts.

Chemistry division:

The Chemistry division had faced difficult times in the past. However, we feel it has found its sweet spot in the shale gas extraction and ethanol manufacturing markets, which could help it perform better in the US markets. However, pressures remain in the Swiss market. The group expects FY2014E sales to be lower y/y and we have modelled a revenue decline of 2% y/y for the year. For FY2015E, we expect Swiss business to perform better along with continued growth in the US and hence have assumed 5% revenue growth.

PROFITABILITY

CPH's operating performance was strong till FY2008, in conformation of its top-line trend. However, weakening economic conditions caused by the financial crisis pulled down its profitability and its operating margins contracted significantly in FY2008 and FY2009. Both the Chemistry and Packaging divisions saw the maximum contraction in operating margins. The FY2010 was the nadir in terms of profitability as the overall group's operating margin fell to -7.6%. The Paper division was the key reason for this debacle where external factors such as unfavourable currency and price developments as well as market conditions impacted operation while other divisions improved during that year. Falling paper prices and additional depreciation charge of the PM7 machine were the major reasons for this poor performance. The Paper division's margins remained weak since then and have not yet recovered, while the Chemistry division has been volatile. The drop in the Chemistry division margins in FY2013 can be attributed to the sale of its highly profitable Fine Chemicals business line. The Packaging division has been doing well in the meanwhile, as its margins continue to expand, but are still below FY2007 peaks.

Looking ahead, we expect margins to pick up on the back of a number of management initiatives for cost rationalization and improved forecasts of capacity utilization.

Paper division:

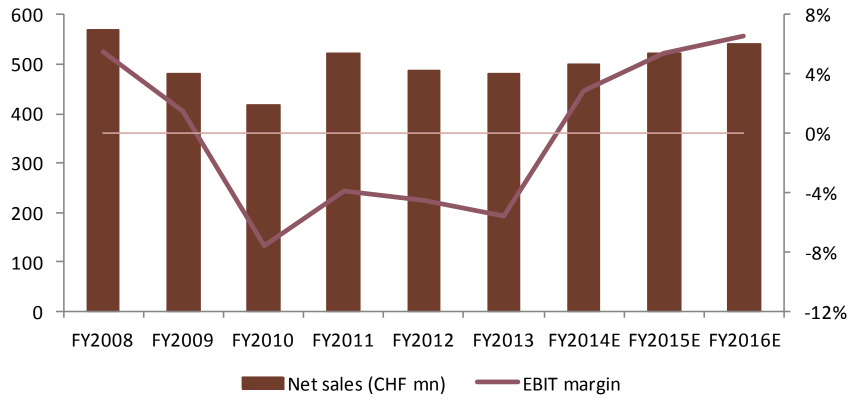
CPH has taken a number of steps to improve the all-important division's profitability. The PM7 machine is expected to reduce operating costs considerably. The group has shifted its energy source to the free energy market and has signed a two-year contract (2 years agreement with provider to buy on decision by CPH, no fixed price, Leibziger Börse traded price). This move is expected to save the company approximately CHF 10 million every year. In 2012, the company invested in Renergia Zentralschweiz AG (Renergia) through a non-cash contribution. The company provided Renergia with the land to build the incineration facility. In return, the paper division will get 10% stake in Renegia. The project, which will commence operations in 2015, will help the paper division lessen its fuel oil consumption, thus reducing energy costs and getting the plant to CO2 neutral. This will be a big leap for the paper division in terms of achieving cost leadership through energy cost reduction. We expect significantly better profitability for the division in coming years, in the light of higher production on the same fixed costs, lower depreciation costs due to impairment charge in FY2013 (majority of which was in this division), as well as the effect of above mentioned management initiatives. After a 9.7% operating loss in FY2013, we have forecast the division to become EBIT positive in FY2014E, which is in-line with the guidance given by the company. We anticipate operating margins to improve to 4% in FY2014E and 6% in FY2015.

Chemistry and Packaging divisions:

With the sale of the Fine Chemicals business, the Chemistry division's profitability has suffered significantly over the last few years. Meanwhile, the packaging division has been performing well with a strong margin growth in the last three years. The company is now taking a number of steps to improve the operating margins for these divisions. For the packaging division, the company intends to increase the sales in high growth regions such as Asia-Pacific to expand its scale. CPH also plans to focus on high margin products so as to further improve the division's profitability. CPH plans to improve the operational efficiency of the Chemistry division in order to improve the margin scenario there.

Overall, we expect margin improvement in both businesses. We have forecast the Chemistry division to turn around at the operating level in FY2015E, after a loss in FY2014E. We believe the Packaging division will continue its good work and its margins will expand slightly to 3% in FY2014E and 6.5% in FY2015E. Further, we forecast operating margins for the Chemistry and Packaging divisions at 3.5% and 7% in FY2016E.

Exhibit 33: Group sales and margin development (FY2008-FY2016E)



Source: Research Dynamics, Company data

H1 2014 RESULTS

Paper and packaging divisions supported revenue growth

Despite a positive performance by the paper and packaging divisions, which offset the drop in sales of the chemistry division, CPH's H1 2014 revenues declined 0.9% y/y. The paper division sales inched up 1.1% y/y to CHF 153.15mn on the back of a marginal price rise and a rise in sales of high-margin products. However, the overall scenario remained bleak demand for newsprint and magazine paper dipped 3-4% y/y. Moreover, overcapacities continued to haunt the industry. The packaging division's sales were up a marginal 0.5% y/y to CHF 61.23mn as the pharmaceutical market witnessed a sluggish growth. Meanwhile, sales from the chemistry segment dipped 12.7% y/y to CHF 28.55mn. Markets for molecular sieves remained strong in the Americas and Far East supported by shale and ethanol, and medical oxygen businesses. However, the growth was more than offset by a lower sales level in the Swiss region.

The paper division's EBIT turned positive and stood at CHF 8.75mn (margin 5.7%) for the first time after 2009, thanks to productivity improvements as well as a lower depreciation base following the 2013 impairments. However, the packaging division's EBIT dipped 51.6% y/y to CHF 2.25mn on account higher production and project-related costs. The chemistry segment continued to reel under pressure and reported negative EBIT of CHF 1.48mn. Overall, the group's EBIT was positive to reach CHF 9.3mn (vs. a loss of 13.57mn in H1 2013).

KEY RISKS

Paper prices do not recover as expected

The Paper division forms a major part of CPH's revenues and its success is vital for the group to do well in the future. In recent years, the division has suffered a lot because of weak paper prices and its profitability has been affected. With the closure of many paper manufacturing plants across Europe, the demand-supply scenario has improved somewhat while paper prices have yet stabilized.

Going forward, we expect prices to remain under pressure, which will be is the key to a strong performance from the Paper division. However, if paper prices fail to rise, CPH's revenue and operating profit performance will be pressurized.

Successful integration of acquired companies

The Asia-Pacific region is expected to grow very strongly (in double digits till 2018) and become the biggest market for pharmaceutical packaging. CPH has plans to benefit from the strong growth in the region and the inorganic route is one of the ways through which the management intends to grow its sales in the region. CPH is investing into a green-field plant in China to service the fast-growing market there. Earlier in 2007, the group had acquired ac-Folien, a mono-films manufacturer to its packaging division.

However, the strategy to pursue growth through the inorganic route is always laced with well-known risks of having to find the right target with a good match to existing operations and facing integration troubles after the acquisition. The management will have to make sure it does well on both fronts so as not to spoil the group's future prospects.

High currency exposure
CPH is exposed to various financial risks by virtue of its global operations and customer base. In FY2013, the group derived only 16% of revenues in its reporting currency (CHF), while the rest was generated from the international markets. A swing in foreign exchange rates can substantially affect the group's financials.

In addition to the risk to revenues, profitability will also be severely affected if currency rates move in the wrong direction. This is because the group incurs 70% of its costs in its reporting currency. An example of this has been seen in recent years, as the group's financial performance was hit significantly because of the euro's weakness as compared to the Swiss Franc.

Weak recovery in Europe
While the Chemistry and Packaging divisions generate revenues all over the world, CPH's biggest division (Paper) is completely localized, deriving all of its sales in Europe. Overall, the group derives 84% of its revenues from the Euro-zone and the contribution from Europe has been above 80% for many years now. Because of this concentration, the division is heavily dependent on the region's macroeconomic factors. The strong economic growth in this region has slowed, firstly due to the 2008 financial crisis and more recently due to the sovereign debt crisis, which has affected the group's prospects.

Although Switzerland has held up relatively well, some of the group's important markets have seen their country's growth slowing down significantly. The region has stabilized in recent times and IMF forecasts the Euro zone to growth in 2014, albeit slow, to be positive and between 1-1.5%. Going forward, CPH expects growth in its chemistry and packaging sales to in the mid-single digit range. However, if the sovereign debt crisis re-emerges or regions find their growth stalling, CPH's performance also could suffer as a result.

Fall in oil prices making shale gas extraction unviable
In recent times, the Chemistry division's US operations have seen rising demand from the shale gas extraction industry and the sector remains one of the key growth drivers for the division. For this demand to sustain or grow in future years, it is vital that the sector sees increased investment and activity.

The economics of shale gas extraction are measured in terms of oil prices per barrel, since that is the energy source which shale gas effectively replaces. However, extraction costs for shale gas are significantly higher than that for oil. It is estimated that shale gas extraction becomes economical only when the price of crude oil in the US is above USD 80 per barrel. If oil prices fall to around this level, the shale gas extraction activity could reduce significantly, which could become a major concern for the Chemistry business.

ADDITIONAL DETAILS

Board of directors

Name	Member since
Peter Schaub	1994
Max Walter	1990
Mauro Gabella	2005
Tim Talaat	1994
Christian Wipf	2008

Source: Company data

Management team

Name	Title	With CPH since
Peter Schildknecht	CEO	2008
Manfred Haener	CFO (including Real Estate & IT)	2012
Alois Waldburg-Zeil	Head Of Chemistry Division	2010
Klemens Gottstein	Head of Paper Division	2012
Wolfgang Grimm	Head of Packaging Division	1998

Source: Company data

Major Shareholders

Name	Ownership position (%)
UBV Uetikon Betriebs and Verwaltungs AG	49.9%
Schnorf-Schmid Ella	7.2%
Sarasin Investmentfonds AG	6.1%
Board/management members and associates	2.8%
Publicly-held	29.0%
Undisclosed	5.0%

Source: Company data

Even though the group's performance deteriorated in the recent years, ownership position of the major shareholders has been largely stable. This highlights the long-term perspective of these shareholders, lending support to the management's decision making process.

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Chemistry sales	123	97	101	68	59	58	61
Paper sales	261	218	315	314	306	321	330
Packaging sales	98	102	106	106	116	121	129
Net Sales	**482**	**417**	**521**	**489**	**481**	**500**	**520**
Cost of Sales	(270)	(259)	(338)	(325)	(323)	(323)	(333)
Gross profit	**212**	**158**	**182**	**163**	**158**	**177**	**187**
Personnel cost	(96)	(89)	(93)	(85)	(86)	(90)	(89)
Outsourced maintenance/repairs	(21)	(17)	(20)	(19)	(19)	(20)	(20)
Other operating expense	(24)	(23)	(23)	(21)	(22)	(23)	(25)
Total operating costs	**(141)**	**(129)**	**(136)**	**(125)**	**(127)**	**(133)**	**(135)**
EBITDA	**71**	**29**	**47**	**38**	**31**	**44**	**52**
Depreciation on tangible fixed assets	(60)	(58)	(65)	(59)	(57)	(29)	(24)
Depreciation on intangible assets	(2)	(2)	(2)	(2)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	**9**	**(31)**	**(20)**	**(22)**	**(27)**	**14**	**28**
Impairment	0	0	0	0	(251)	0	0
Operating profit (EBIT)	**9**	**(31)**	**(20)**	**(22)**	**(278)**	**14**	**28**
Finance costs	(4)	(10)	(13)	(7)	(5)	(6)	(6)
Finance income	6	1	1	1	1	1	1
Total financial income (expenses)	**2**	**(9)**	**(12)**	**(6)**	**(4)**	**(5)**	**(5)**
Profit before taxes (before exceptional items)	**10**	**(40)**	**(32)**	**(28)**	**(281)**	**9**	**23**
Non-operating items	26	13	12	38	2	0	0
Income taxes	(7)	7	2	(2)	8	(2)	(5)
Profit attributable to the parent	**29**	**(20)**	**(18)**	**8**	**(271)**	**7**	**19**
Basic EPS	**98.2**	**(66.7)**	**(60.0)**	**26.9**	**(904.9)**	**24.4**	**61.8**
Diluted EPS	**98.2**	**(66.7)**	**(60.0)**	**26.9**	**(904.9)**	**24.4**	**61.8**
DPS	**30.0**	**0.0**	**13.0**	**13.0**	**13.0**	**9.8**	**24.7**

Source: Research Dynamics, Company data

Balance Sheet

In CHF mn	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Assets							
Non-current assets							
PPE	709.5	853.9	769.2	719.7	433.7	424.0	425.1
Intangible assets	5.6	3.8	2.9	1.5	1.2	1.3	1.4
Long-term financial assets	0.0	0.0	0.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.3	0.1	2.5	0.0	0.0	0.0	0.0
Other non-current assets	27.9	26.1	23.9	21.2	22.4	22.4	22.4
Total Non Current Assets	743.3	883.9	798.5	752.4	467.3	457.7	458.9
Current assets							
Inventories	60.4	63.7	57.3	58.8	56.9	61.7	63.0
Trade accounts receivable	67.2	60.9	75.6	74.0	70.8	75.4	78.4
Other receivables	14.6	19.5	13.2	10.7	7.3	7.3	7.3
Prepaid expenses and accrued income	5.4	4.6	3.9	3.0	5.3	5.3	5.3
Short-term financial receivables	2.4	0.3	0.9	0.2	0.0	0.0	0.0
Liquid funds and Securities	101.4	73.6	42.6	73.3	74.2	76.6	87.9
Total assets	**994.6**	**1106.5**	**992.1**	**972.4**	**681.8**	**683.9**	**700.8**
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Capital reserves	13.3	13.3	24.0	20.1	16.2	12.3	9.4
Profit reserves	678.7	686.9	670.3	651.6	659.5	388.1	395.4
Net result for the year	29.5	(20.0)	(18.0)	8.1	(271.5)	7.3	18.6
Non-current liabilities							
Long-term financial liabilities	116.0	225.9	169.3	144.0	117.9	126.8	126.8
Pension scheme liabilities	0.5	0.3	0.6	0.5	0.7	0.7	0.7
Other long-term liabilities	0.7	0.1	0.0	0.0	2.5	2.5	2.5
Long-term provisions	54.0	40.6	32.0	31.3	21.3	21.3	21.3
Current liabilities							
Trade accounts payable	29.2	93.6	40.0	52.9	59.4	58.1	59.3
Other payables	4.4	3.5	6.9	2.6	4.4	4.4	4.4
Accrued liabilities and deferred income	11.1	8.8	12.7	15.8	11.0	11.0	11.0
Short-term financial liabilities	14.3	12.7	11.3	9.8	23.0	14.1	14.1
Short-term provisions	12.7	10.9	12.9	5.7	7.2	7.2	7.2
Total liabilities	**243.1**	**396.3**	**285.8**	**262.6**	**247.5**	**246.2**	**247.5**
Total equity and liabilities	**994.6**	**1106.5**	**992.1**	**972.4**	**681.8**	**683.9**	**700.8**

Source: Research Dynamics, Company data

Cash Flow Statement

In CHF mn	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Net profit for the period	29.5	(20.0)	(18.0)	8.1	(271.5)	7.3	18.6
Non-cash adjustments:	30.6	28.7	47.9	20.8	298.8	29.6	24.2
Change in current assets and liabilities:							
(Increase)/ decrease in inventories	23.4	(6.5)	(2.7)	(1.7)	(2.6)	(4.8)	(1.3)
Decrease in trade accounts receivable	23.8	2.1	(20.2)	1.3	3.4	(4.5)	(3.1)
Increase/ (decrease) in trade accounts payable	(4.1)	65.3	(52.0)	13.0	6.4	(1.3)	1.2
Other changes in working capital	79.1	9.9	27.5	0.8	(3.0)	-	-
Cash flows from operating activities	**182.1**	**79.4**	**(17.5)**	**42.3**	**31.4**	**26.3**	**39.7**
Investments in tangible fixed assets	(266.2)	(220.9)	(24.4)	(10.9)	(18.2)	(19.4)	(24.8)
Disposals of tangible fixed assets	29.0	24.9	39.9	30.1	0.9	-	-
Investments in intangible assets	(1.5)	(0.3)	(1.4)	(0.3)	(0.5)	(0.6)	(0.7)
Sale of subsidiary/ Divestiture of interests	-	-	33.1	-	-	-	-
Repayment of long-term financial receivables	0.1	0.1	0.1	2.5	0.0	-	-
Cash flow generated (used) in investment activities	**(238.6)**	**(196.1)**	**47.4**	**21.4**	**(17.8)**	**(20.0)**	**(25.5)**
Increase/ (Decrease) in short-term financial liabilities and receivables	-	-	3.7	(1.5)	(2.0)	(8.9)	-
Increase/ (Decrease) in long-term financial liabilities	45.7	114.9	(56.2)	(25.1)	(10.8)	8.9	-
Increase in other long-term liabilities	-	(0.6)	(0.0)	0.0	2.5	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(10.5)	(9.0)	-	(3.9)	(3.9)	(3.9)	(2.9)
Cash flow generated (used) in financing	**35.2**	**105.3**	**(52.6)**	**(30.6)**	**(14.2)**	**(3.9)**	**(2.9)**
Exchange (losses)/gains	0.0	(1.1)	(0.1)	0.1	(0.2)	-	-
Net change in cash	**(21.3)**	**(12.5)**	**(22.8)**	**33.2**	**(0.7)**	**(2.4)**	**11.3**
Opening cash balance	62.3	41.0	28.4	5.6	38.8	38.1	40.4
Closing cash balance	**41.0**	**28.4**	**5.6**	**38.8**	**38.1**	**40.4**	**51.8**

Source: Research Dynamics, Company data

Key Ratios

	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E
Growth Ratios							
Sales Growth	(16%)	(13%)	25%	(6%)	(2%)	4%	4%
Chemistry division	(29%)	(21%)	3%	(33%)	(13%)	(2%)	5%
Paper division	(8%)	(16%)	44%	(0%)	(3%)	5%	3%
Packaging division	(13%)	4%	4%	1%	9%	4%	7%
Operating Profit Growth	(74%)	NM	NM	NM	NM	NM	99%
Net Income Growth	(4%)	NM	NM	NM	NM	NM	153%
Profitability Ratios (%)							
Operating margin (before impairment) (%)	2%	(7%)	(4%)	(5%)	(6%)	3%	5%
Chemistry division	(5%)	(3%)	1%	(0%)	(9%)	(4%)	0%
Paper division	5%	(13%)	(8%)	(8%)	(10%)	4%	6%
Packaging division	0%	1%	4%	5%	6%	3%	7%
EBITDA Margin %	15%	7%	9%	8%	6%	9%	10%
Net Margin (%)	6%	(5%)	(3%)	2%	(56%)	1%	4%
Return Ratios							
Profit Margin	6%	(5%)	(3%)	2%	(56%)	1%	4%
Asset Turnover	0.5x	0.4x	0.5x	0.5x	0.6x	0.7x	0.8x
Financial Leverage	1.3x	1.4x	1.5x	1.4x	1.4x	1.6x	1.6x
Dupont ROE (%)	4%	(3%)	(3%)	1%	(47%)	2%	4%
ROCE (%)	1%	(3%)	(2%)	(3%)	(5%)	3%	5%
ROA (%)	3%	(2%)	(2%)	1%	(33%)	1%	3%
Leverage Ratios							
Debt - Equity Ratio	0.2x	0.3x	0.3x	0.2x	0.3x	0.3x	0.3x
Net Debt - Equity Ratio	0.1x	0.3x	0.2x	0.1x	0.2x	0.2x	0.1x
Interest Coverage	2.2x	(6.9x)	(2.0x)	(3.2x)	(6.0x)	2.3x	4.5x
Liquidity Ratios							
Current Ratio	3.5x	1.7x	2.3x	2.5x	2.0x	2.3x	2.5x
Quick Ratio	2.7x	1.2x	1.6x	1.9x	1.5x	1.7x	1.8x
Valuation Ratios							
EV/EBITDA	7.9x	23.4x	9.4x	12.3x	14.1x	9.7x	8.1x
P/E	17.8x	nm	nm	48.4x	nm	48.7x	19.2x
P/BV	0.7x	0.7x	0.4x	0.5x	0.8x	0.8x	0.8x

Source: Research Dynamics, Bloomberg, Company data

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