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CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

1H 2017 earnings update

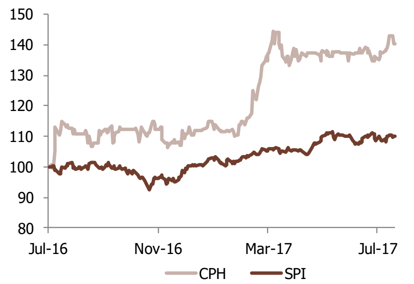
26 July 2017

Company Data

Price:	CHF 51.20
Market Cap:	CHF 307.2mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (1 year):	844
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624717

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2015	2016	2017E	2018E
Sales	420.0	434.8	458.1	473.5
EBITDA %	2.9%	8.5%	6.9%	9.0%
EBIT %	(5.2%)	1.4%	0.0%	2.0%
Net Margin %	(7.9%)	(1.8%)	0.3%	0.3%
Basic EPS	(5.52)	(1.32)	0.20	0.20
Diluted EPS	(5.52)	(1.32)	0.20	0.20
DPS	0.60	0.65	0.65	0.54
Equity Ratio %	64.5%	56.2%	56.7%	56.3%
Capex	(22.0)	(1.5)	(38.1)	(21.5)
P/Sales	0.6x	0.6x	0.7x	0.7x
P/E	NM	NM	221.7x	215.9x
EV/EBITDA	25.8x	9.1x	10.6x	8.0x

Next Events

Investora Conference Zurich	21 Sept 2017
Ordinary General Meeting	14 March 2018

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Execution on track, but higher recycling paper prices erode margins

CPH Chemie + Paper Holding AG (CPH/the group) is a diversified industrial group with activities in the paper, chemical products and pharmaceutical packaging films industries. CPH generates around 55% of its revenues from the Paper division, where almost all sales come from Europe. CPH is one of the only two newsprint paper producers in the Swiss market and the country's sole magazine paper producer. 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 a global exposure. In 1H2017, CPH's generated net sales of CHF 231.7 million and had an employee headcount of 979.

Strong 1H 2017 sales, with top line growth in all divisions

CPH reported a healthy top line growth of 5.5% YoY for 1H2017, as sales reached CHF231.7 million, driven by higher sales volumes across all segments as well as the acquisition of China-based Jiangsu ALSIO Technology Co. Among the three segments, Chemistry reported the highest EBIT margin of 4.9%. Group EBIT stood at CHF 1.1 million in 1H2017 compared to CHF 6.0 million in 1H2016. Although the company saw substantial improvements in the top line in all three divisions, the negative impact on EBIT was mainly due to considerable higher recycling paper costs combined with lower sales volumes for the higher margin coated paper.. Further the expected start-up costs for the Chinese operation in the Packaging Division had an additional non-recurring negative impact. As a consequence, despite improved operating performance, the company's bottom line remained negative in 1H2017 with a net loss of CHF 2.2 million.

Segmental performance

Paper: The paper industry is still struggling as demand in newsprint and magazine paper declined by around 6% in 1H2017, compared to a decrease of 5% in 1H2016. The division also experienced a drop in the proportion of higher-value products sold as customers are shifting to lower cost alternatives. In spite of all these negatives, the top line at the Paper division rose by 5.1%YoY from CHF121.9 million to CHF 128.1 million in 1H2017 thanks to higher volumes. Despite the higher sales and lower fixed cost, the segment reported a loss of CHF 6.01 million at the operating level, from CHF 0.9 million in the prior year. This was mainly due to a double-digit increase in raw material cost (recycling paper). Management's focus on efficiency improvements resulted in a continued fall in carbon emissions and will further enhance the Perlen plant carbon emissions credentials.

Packaging: Net sales at the Packaging division increased by 4.7% YoY from CHF 62.6 million to CHF 65.5 million in 1H2017. The rise in sales was primarily attributable to continued growth of high-barrier film products and an increase in the volumes of uncoated mono-films sold during the period. Though the European pharmaceutical market remained stagnant in the first half of 2017, CPH was able to increase its market share in the region. The new production plant in Wujiang, China, which began operations in 2Q2016, has supported volume growth. However, the cost of raw materials such as PVC witnessed a significant increase in prices and the start-up costs for the Chinese operations impacted the results negatively. As a result of this, the Packaging division posted a slight drop in EBIT to CHF 5.5 million from CHF 6.1 million in 1H2016. The EBIT margin thus was lower at 8.4% vs. 9.8% in the prior period.

Chemistry: Segment sales surged by 8.7% YoY to CHF 38 million, supported by increased volumes coupled with a better utilization of production facilities. Revenues were also supported by the integration of China-based molecular sieve manufacturer Jiangsu ALSIO Technology Co into the division's production base. Sales of high-margin products increased, resulting in an improvement in profitability. The segment was able to post an operating profit of CHF 1.9 million, from CHF 0.5 million a year ago. EBIT margin thus improved from 1.3% to 4.9% in 1H2017. The transfer of standard molecular sieve production to China has now been completed and the new plant in Bosnia and Herzegovina is proceeding according to plan.

Guidance

The group aims to increase packaging activities in emerging markets to take advantage of the growing local pharmaceutical markets. While the Chemistry division is expected to achieve similar results in 2H2017 as in the first half-year, conditions in the Paper division may remain difficult. The group targets higher net sales for FY2017 overall and a break-even EBIT result. Thanks to extraordinary income from real-estate sales, net income should be positive.

Paper: The division is not ruling out a price increase in 2H2017 for certain types of paper despite market overcapacity. While division revenues should also increase for FY2017 overall, EBIT is expected to remain negative. Efficiency enhancements continue to be on the cards.

Packaging: Transfer of orders to the Chinese production facility (from Switzerland) will drive sales growth in the Asia-Pacific region and result in margin improvement. For FY2017, the group expects to report higher net sales and an EBIT in line with prior-year level.

Chemistry: The integration of this division into a one-brand Zeochem AG (see below) will help in realizing synergies across the division which will operate from its new Swiss premises in Rüti by end of the year. New production facilities in Bosnia and Herzegovina are also expected to commence operations from 4Q2017. For FY2017, the division expects to report continued net sales growth and an EBIT margin in line with the first-half level.

Zeochem merges its Swiss-based companies

The Chemistry Division plans to merge its Swiss-based companies CU Deutero + Agro AG and Chemie Uetikon AG into Zeochem AG. By integrating the units into Zeochem AG, the group looks forward to make use of synergies in terms of better quality, logistic, marketing and sales. Following the integration, the division will trade solely under the Zeochem brand on the Swiss market. The divisions' deuterated products will be manufactured and distributed from a new site in Rüti (near Zurich) from 2018 onwards. In addition to Switzerland, Zeochem has operations in the USA and China and will add a new site in Zvornik, Bosnia and Herzegovina which will start operations in 4Q2017.

CPH Group's Packaging and Chemistry division sharpens brand profile

CPH also plans to standardize the branding of its Packaging and Chemistry Division under the brand names Perlen Packaging and Zeochem respectively. These actions are the result of a broader reappraisal of the Group's divisional branding strategy. The Group is also looking forward to rename every company based on the brand name, company's legal form and geographical location and expects to complete the process by mid-2018.

Paper Division to acquire Papierfabrik Utzenstorf AG's paper recycling business

CPH's paper division, Perlen Papier AG, will acquire Papierfabrik Utzenstorf AG's paper recycling business along with its contractual agreements with customers, suppliers and remaining paper stock for an undisclosed sum. This acquisition which is to be effective from 1 January, 2018, reflects the consolidation pressure in the Swiss newspaper industry. With this acquisition, CPH will have higher proportion of recovered paper sourced from Switzerland which should result in reduction of its raw material cost as Utzendorf Papier recovered 25% of the Swiss waste paper (recycling) from 800 communities with an annual volume of 260,000 tonnes. Utzendorf Papier has an own sorting facility for recovered paper and has agreements with hundreds of communities to collect waste paper, which ensures the sourcing also in the coming years. Post this acquisition, Perlen Papier will be Switzerland's only manufacturer of newsprint and magazine paper. Further, its production plant in Perlen will then process 500,000 tonnes of waste paper per year. They also have agreements with various communities to recover household waste papers, which ensure long term availability. Perlen Papier will also continue to operate the paper sorting facility in Utzenstorf. We believe the acquisition of the Utzenstorf recycling business and the new PM7, Europe's most advanced paper machine with capacity of 350,000 tonnes per year, will help CPH to improve margins at the lagging paper division.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. In the DCF analysis, we have reduced the market risk premium (MRP) to 8.2% from 11.2% used earlier. We have reduced the MRP as we believe the management is executing well, delivering on operational excellence in costs and quality despite the challenging environment in the Paper Division. In addition the latest Utzenstorf recycling business acquisition reduces the sourcing risk of waste paper. We have also considered a higher risk-free rate of 0.5% compared to current 10 year Government Bond yield of 0.04% as we believe it is not sustainable in the long term. Based on our input factors and valuation assumptions, we arrive at an intrinsic value of CHF 57.2 per share, giving it an upside potential of 11%.

On a relative basis the stock is trading at P/Sales of 0.6x, giving 52% discount to its peers based on the last three year's average. On one year forward EV/EBITDA of 9.4x CPH is trading at a 5% discount to its peers.

We believe in the medium-term stock could trade at higher multiples on account of an increased contribution of sales and operating profits expected out of the Asia-Pacific region and higher operating efficiencies from the new production facilities.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
CPH Chemie & Paper	9.8x	9.4x	8.4x	0.6x	0.7x	0.7x	24.6x	73.6x	36.3x
Paper peers:									
Holmen	11.3x	11.2x	10.8x	1.5x	2.0x	2.0x	29.9x	18.4x	17.8x
Stora Enso	6.9x	8.3x	7.9x	0.7x	0.9x	0.9x	33.6x	15.1x	13.5x
Altri	7.7x	7.1x	7.5x	1.2x	1.3x	1.4x	11.2x	10.0x	10.9x
Metsa Board	11.8x	9.2x	7.8x	1.0x	1.2x	1.1x	19.6x	15.9x	12.4x
UPM-Kymmene	8.6x	8.9x	8.9x	0.9x	1.4x	1.4x	13.4x	14.7x	14.7x
Norkse Scogindustrier	11.6x	7.0x	7.5x	0.1x	0.0x	0.0x	2.9x	NA	NaN
James Cropper	12.0x	NA	NA	0.8x	1.7x	1.6x	28.6x	29.2x	25.5x
OJI Holdings	10.0x	9.2x	9.0x	0.4x	0.4x	0.4x	32.1x	15.7x	13.9x
Chemistry peers:									
Honeywell Int.	10.8x	12.9x	11.9x	2.1x	2.6x	2.5x	18.6x	19.4x	17.8x
Clariant	9.7x	9.9x	9.2x	1.0x	1.2x	1.1x	25.6x	17.6x	16.4x
Arkema	7.1x	6.9x	6.5x	0.8x	0.9x	0.9x	20.0x	14.8x	13.4x
WR Grace & Co.	17.9x	12.2x	11.2x	2.7x	3.0x	2.8x	38.1x	21.4x	18.8x
Packaging peers:									
Meadvestwaco	10.7x	NA	NA	1.4x	NA	NA	26.4x	NA	NA
MacFarlane Group	8.8x	8.0x	7.6x	0.4x	0.4x	0.4x	13.1x	9.7x	9.7x
Gerresheimer	9.5x	9.6x	9.0x	1.5x	1.6x	1.5x	26.3x	16.3x	15.0x
West Pharmaceutical Services	18.5x	19.5x	16.9x	3.4x	4.3x	4.0x	42.0x	34.4x	31.2x
Convertidora Industrial	8.0x	7.3x	6.7x	0.4x	0.3x	0.3x	33.5x	NA	NA
PSB Industries	5.9x	6.2x	5.8x	0.6x	0.5x	0.5x	10.9x	11.4x	10.0x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	10.7x	NA	NA	0.1x	NA	NA	NA	NA	NA
Median	10.0x	9.0x	8.4x	0.9x	1.2x	1.1x	26.0x	15.9x	14.7x
High	18.5x	19.5x	16.9x	3.4x	4.3x	4.0x	42.0x	34.4x	31.2x
Low	5.9x	6.2x	5.8x	0.1x	0.0x	0.0x	2.9x	9.7x	9.7x
Premium (disc) to peers	(2%)	4%	0%	(40%)	(43%)	(40%)	NA	363%	146%

Source: Thomson Eikon (as on 25 July 2017)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
Weighted peer multiples	10.1x	9.8x	9.1x	1.2x	1.4x	1.4x	24.0x	16.8x	15.3x
CPH	9.8x	9.4x	8.4x	0.6x	0.7x	0.7x	24.6x	73.6x	36.3x
Premium (disc) to peers	(3%)	(5%)	(8%)	(52%)	(51%)	(51%)	NM	338%	137%

Source: Thomson Eikon (as on 25 July 2017)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Chemistry sales	68	59	60	63	69	76	81
Paper sales	314	306	314	248	246	257	259
Packaging sales	106	116	118	110	119	126	133
Net Sales	**489**	**481**	**492**	**420**	**435**	**458**	**473**
Cost of Sales	(325)	(323)	(313)	(285)	(267)	(289)	(293)
Gross profit	**163**	**158**	**180**	**135**	**168**	**169**	**180**
Personnel cost	(85)	(86)	(88)	(86)	(89)	(94)	(95)
Outsourced maintenance/repairs	(19)	(19)	(18)	(16)	(18)	(18)	(19)
Other operating expense	(21)	(22)	(23)	(21)	(25)	(25)	(25)
Total operating costs	**(125)**	**(127)**	**(129)**	**(123)**	**(131)**	**(137)**	**(139)**
EBITDA	**38**	**31**	**51**	**12**	**37**	**32**	**42**
Depreciation on tangible fixed assets	(59)	(57)	(34)	(34)	(31)	(31)	(31)
Depreciation on intangible assets	(2)	(1)	(1)	(0)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	**(22)**	**(27)**	**16**	**(22)**	**6**	**0**	**10**
Impairment	0	(251)	0	0	0	0	0
Operating profit (EBIT)	**(22)**	**(278)**	**16**	**(22)**	**6**	**0**	**10**
Finance costs	(7)	(5)	(7)	(13)	(6)	(6)	(6)
Finance income	1	1	2	1	1	0	0
Total financial income (expenses)	**(6)**	**(4)**	**(6)**	**(12)**	**(5)**	**(6)**	**(6)**
Profit before taxes (before exceptional items)	**(28)**	**(281)**	**10**	**(34)**	**1**	**(6)**	**4**
Non-operating items	38	2	1	2	(4)	10	0
Income taxes	(2)	8	(1)	(1)	(4)	(3)	(3)
Profit attributable to the parent	**8**	**(271)**	**11**	**(33)**	**(8)**	**1**	**1**
Basic EPS	1.3	(45.2)	1.8	(5.5)	(1.3)	0.2	0.2
Diluted EPS	1.3	(45.2)	1.8	(5.5)	(1.3)	0.2	0.2
DPS	0.7	0.7	0.7	0.6	0.7	0.6	0.5

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Assets							
Non-current assets							
PPE	719.7	433.7	419.1	404.3	384.6	388.8	377.1
Intangible assets	1.5	1.2	1.3	2.4	3.1	4.0	5.1
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	0.0	2.8	0.0	0.0	0.0	0.0
Other non-current assets	21.2	22.4	22.7	20.2	52.6	52.6	52.6
Total Non Current Assets	752.4	467.3	456.0	436.9	450.3	455.4	444.9
Current assets							
Inventories	58.8	56.9	63.4	54.5	68.9	61.6	61.0
Trade accounts receivable	74.0	70.8	79.5	66.4	69.1	69.0	71.3
Other receivables	10.7	7.3	7.7	8.0	8.9	8.9	8.9
Prepaid expenses and accrued income	3.0	5.3	6.6	4.9	4.8	4.8	4.8
Short-term financial receivables	0.2	0.0	0.1	0.0	0.1	0.1	0.1
Liquid funds and Securities	73.3	74.2	75.1	53.2	70.4	65.4	69.0
Total assets	**972.4**	**681.8**	**688.4**	**624.0**	**672.4**	**665.3**	**660.0**
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Capital reserves	20.1	16.2	12.3	8.4	4.8	0.9	(3.0)
Profit reserves	651.6	659.5	389.2	397.4	351.2	343.3	344.5
Net result for the year	8.1	(271.5)	10.5	(33.1)	(7.9)	1.2	3.7
Non-current liabilities							
Long-term financial liabilities	144.0	117.9	128.0	126.5	145.6	129.2	125.8
Pension scheme liabilities	0.5	0.7	0.6	1.0	1.1	1.1	1.1
Other long-term liabilities	0.0	2.5	2.4	2.3	0.1	0.1	0.1
Long-term provisions	31.3	21.3	20.8	20.0	52.5	52.5	52.5
Current liabilities							
Trade accounts payable	52.9	59.4	53.8	46.7	53.1	55.3	54.3
Other payables	2.6	4.4	3.9	2.6	8.3	8.3	8.3
Accrued liabilities and deferred income	15.8	11.0	9.1	13.6	16.5	16.5	16.5
Short-term financial liabilities	9.8	23.0	22.6	6.8	7.0	23.3	22.7
Short-term provisions	5.7	7.2	5.1	1.5	7.6	0.9	0.9
Total liabilities	**262.6**	**247.5**	**246.4**	**221.2**	**291.6**	**287.2**	**282.1**
Total equity and liab.	**972.4**	**681.8**	**688.4**	**624.0**	**672.4**	**665.3**	**660.0**

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Net profit for the period	8.1	(271.5)	10.5	(33.1)	(7.7)	1.2	3.7
Non-cash adjustments:	20.8	298.8	30.3	35.3	33.9	31.4	31.9
Change in current assets and liabilities:							
(Increase)/ decrease in inventories	(1.7)	(2.6)	(5.5)	8.4	(13.1)	7.3	0.6
Decrease in trade accounts receivable	1.3	3.4	(11.2)	8.1	(0.5)	0.0	(2.3)
Increase/ (decrease) in trade accounts payable	13.0	6.4	(5.8)	(6.8)	1.6	2.3	(1.1)
Other changes in working capital	0.8	(3.0)	1.5	6.5	5.6	(6.7)	-
Cash flows from operating activities	**42.3**	**31.4**	**19.8**	**23.3**	**21.9**	**35.5**	**32.9**
Investments in tangible fixed assets	(10.9)	(18.2)	(19.2)	(21.9)	(20.7)	(35.0)	(19.4)
Disposals of tangible fixed assets	30.1	0.9	0.4	1.6	20.5	-	-
Investments in intangible assets	(0.3)	(0.5)	(0.6)	(1.6)	(1.2)	(1.5)	(2.0)
Sale of subsidiary/ Divestiture of interests	-	-	-	-	-	-	-
Repayment of long-term financial receivables	2.5	0.0	-	-	-	-	-
Cash flow generated (used) in investment act.	**21.4**	**(17.8)**	**(19.4)**	**(22.0)**	**(19.9)**	**(36.5)**	**(21.4)**
Increase/ (Decrease) in short-term financial liabilities and receivables	(1.5)	(2.0)	(0.4)	(15.3)	0.1	16.3	(0.6)
Increase/ (Decrease) in long-term financial liabilities	(25.1)	(10.8)	9.8	(1.1)	19.0	(16.3)	(3.4)
Increase in other long-term liabilities	0.0	2.5	(0.2)	(0.1)	(0.4)	-	-
Minority interests and changes resulting from minorities	-	-	-	-	-	-	-
Dividends to shareholders	(3.9)	(3.9)	(3.9)	(3.9)	(3.6)	(3.9)	(3.9)
Cash flow generated (used) in financing act.	**(30.6)**	**(14.2)**	**5.3**	**(20.4)**	**15.2**	**(3.9)**	**(7.9)**
Exchange (losses)/gains	0.1	(0.2)	0.2	2.3	0.1	-	-
Net change in cash	**33.2**	**(0.7)**	**6.0**	**(16.7)**	**17.2**	**(4.9)**	**3.6**
Opening cash balance	31.5	64.7	63.9	69.9	53.1	70.3	65.4
Closing cash balance	**64.7**	**63.9**	**69.9**	**53.1**	**70.3**	**65.4**	**69.0**

Source: Research Dynamics, Company data

Key Ratios

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Growth Ratios							
Sales Growth	(6%)	(2%)	2%	(15%)	4%	5%	3%
Chemistry division	(33%)	(13%)	2%	4%	11%	9%	7%
Paper division	(0%)	(3%)	3%	(21%)	(1%)	4%	1%
Packaging division	1%	9%	1%	(7%)	9%	5%	6%
Operating Profit Growth	NM	NM	NM	NM	NM	(99%)	NM
Net Income Growth	NM	NM	NM	NM	NM	NM	3%
Profitability Ratios (%)							
Operating margin (before impairment) (%)	(5%)	(6%)	3%	(5%)	1%	0%	2%
Chemistry division	(0%)	(9%)	(4%)	(3%)	2%	5%	5%
Paper division	(8%)	(10%)	4%	(11%)	(2%)	(5%)	(1%)
Packaging division	5%	6%	4%	5%	8%	8%	8%
EBITDA Margin %	8%	6%	10%	3%	8%	7%	9%
Net Margin (%)	2%	(56%)	2%	(8%)	(2%)	0%	0%
Return Ratios							
Profit Margin	2%	(56%)	2%	(8%)	(2%)	0%	0%
Asset Turnover	0.5x	0.6x	0.7x	0.6x	0.7x	0.7x	0.7x
Financial Leverage	1.4x	1.4x	1.6x	1.6x	1.7x	1.8x	1.7x
Dupont ROE (%)	1%	(47%)	2%	(8%)	(2%)	0%	0%
ROCE (%)	(3%)	(5%)	3%	(4%)	1%	0%	2%
ROA (%)	1%	(33%)	2%	(5%)	(1%)	0%	0%
Leverage Ratios							
Debt - Equity Ratio	0.2x	0.3x	0.3x	0.3x	0.4x	0.4x	0.4x
Net Debt - Equity Ratio	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Interest Coverage	(3.2x)	(6.0x)	5.2x	(5.5x)	1.4x	0.0x	1.7x
Liquidity Ratios							
Current Ratio	2.5x	2.0x	2.5x	2.6x	2.4x	2.0x	2.1x
Quick Ratio	1.9x	1.5x	1.8x	1.9x	1.7x	1.4x	1.5x
Valuation Ratios							
EV/EBITDA	12.3x	13.7x	6.2x	25.8x	9.1x	10.6x	8.0x
P/E	48.4x	NM	22.9x	NM	NM	221.7x	215.9x
P/BV	0.5x	0.8x	0.5x	0.6x	0.7x	0.7x	0.7x

Source: Research Dynamics, Bloomberg, Company data

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