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CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

FY2022 Results update

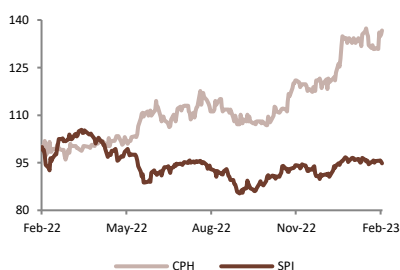
27 February 2023

Company Data

Price:	CHF 88.60
Market Cap:	CHF 531.6mn
Free Float:	11.1%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,325
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2021	2022	2023E	2024E
Sales	496.7	725.4	729.4	731.6
EBITDA %	5.2%	18.1%	11.6%	12.7%
EBIT %	(0.5%)	15.5%	8.9%	9.9%
Net Margin %	(30.5%)	13.9%	10.4%	8.9%
Basic EPS	(25.3)	16.8	12.6	10.8
Diluted EPS	(25.3)	16.8	12.6	10.8
DPS	1.30	4.5	4.2	3.6
Equity Ratio %	55.2%	59.8%	72.3%	74.3%
Capex	(19.4)	(29.6)	(20.3)	(28.7)
P/Sales	0.9x	0.6x	0.7x	0.7x
P/E	NM	4.5x	6.0x	7.0x
EV/EBITDA	17.1x	3.4x	5.2x	4.7x

Source: Research Dynamics, Company data

Next Events

Annual General Meeting	14 Mar 2023
1H 2023 report	20 July 2023
Investor Day	26 Sep 2023

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Broad-based growth across all divisions

Elevated levels of profitability

In FY2022, CPH's net sales increased 46.0% YoY to CHF 725.4mn, driven by growth in all three divisions led by strong demand and higher selling prices, despite the adverse impacts of COVID-19 related lockdowns in China and challenges in raw material procurement. Adjusted for currency fluctuations, topline growth would have amounted to 50.4%. The Paper Division's revenue improved significantly by 66.5% YoY, mainly lifted by substantially higher prices not least due to permanent capacity closures at competitors' operations and a long strike at one of the Paper division's competitors. The Chemistry and the Packaging Divisions registered 15.9% YoY and 35.1% YoY growth respectively, driven by higher volumes and optimum utilisation of the facilities. Despite the substantial rise in raw material, transport and energy costs, the company's EBITDA increased significantly to CHF 131.1mn (FY2021: CHF 25.7mn) and the corresponding margin expanded to 18.1% (FY2021: 5.2%). During the year, the company's Paper and Packaging divisions reversed their margin declines of the prior-year period. Along with higher sales prices, this enabled the company to record substantial growth in EBIT to CHF 112.9mn (FY2021: loss of CHF 2.7mn before impairment of CHF150mn on Paper Division assets) and the corresponding margin expanded to 15.5% (FY2021: -0.5%). The net result of the company attributable to common shareholders improved to CHF 101.0mn (FY2021: loss of CHF 1.4mn before impairment).

Segmental performance

Paper: In FY2022, net sales of the Paper Division increased 66.5% YoY to CHF 384.5mn. During FY2022, there was a slight decrease in demand for newsprint as well as coated magazine paper in Western Europe. Overall paper production volumes declined due to permanent capacity closures and a long strike at one of the Paper Divisions' competitors. Also, another competitor announced the sale of four out of five of its paper factories. This led to higher paper prices and enabled the company to reverse its margin decline from the prior year period thanks to a temporary advantage of its well managed energy supply strategy and despite a significant increase in the division's prime raw materials like waste wood and recovered paper. As a result, the division's EBIT came in at CHF 75.1mn (FY2021: loss of CHF 24.9mn before impairment) and the corresponding margin at 19.5% (-10.8%).

Packaging: Net sales were up 35.1% YoY to CHF 230.6mn (FY2021: CHF 170.7mn), driven by an increase in sales volumes and prices along with a growing proportion of high-barrier films sold. Further, the demand for pharmaceutical packaging was high in Europe while markets in Asia developed underproportionally due to measures to contain the pandemic. Also, pharmaceutical manufacturers added stocks of packaging films, anticipating a shortage in availabilities in the future. All of the division's production facilities were well utilised and witnessed high order volumes. The company had to bear higher transportation and raw material costs in FY2022, but managed to largely pass the higher costs on to end users. As a result, the division recorded an EBIT of CHF 23.7mn (FY2021: CHF 5.7mn) and the corresponding margin expanded to 10.3% (3.3%).

Chemistry: Net sales increased 15.9% YoY to CHF 110.3mn, driven by improved demand in all product segments as facilities were operating at high capacity utilisations during FY2022. The division is set to invest in additional capacities at its sites in the USA, China, Bosnia and Herzegovina and Switzerland. However, as prices of raw materials increased at double-digit rates along with major challenges like increase in other input expense, the division's EBIT declined to CHF 13.8mn (FY2021: 15.3mn) and the corresponding margin contracted to 12.5% (16.1%).

Outlook for FY2023

The near-term macro-economic uncertainties like the impact of energy price developments, supply chain disruptions and ramifications of interest rate hikes by central banks in response to rising inflation resulted in management having a cautious outlook for FY2023.

Group: Concrete divisional developments will depend on the unfolding of macro-economic uncertainties in the key markets and time lags in passing on the higher raw material costs to the market. Management expects FY2023 sales to be higher than in FY2022 and an EBIT in the mid-to-higher double-digit millions. In absence of any unforeseen circumstances, the net result is expected in a similar range.

Paper: Raw material prices are expected to remain at high levels in FY2023. At the same time, elevated paper prices may not sustain and could experience pressure in FY2023. As demand for newspaper and magazine printing paper in Europe already declined by 15% and 25%, respectively, in January 2023 vs. January 2022, the Paper division expects demand to be lower for the year as a whole, resulting in lower net sales and EBIT compared to FY2022. The division plans to invest ~CHF 14mn in enhancing further enhancing plant efficiencies.

Packaging: The global market for blister packaging is expected to grow by 3-6% over the next years. The division aims to further gain market shares, thus we expect net sales to grow at a rate of around 12% in FY2023. Moreover, with plans to pass on the raw materials costs to the market, the EBIT margin in FY2023 is expected to be broadly maintained at the FY2022 level. Regarding CAPEX, the plans are to invest some CHF 14 million in further expanding the slitting and packaging capacities in Europe and North and South America.

Chemistry: Product demand is likely to improve, leading to higher order volumes. However, in light of an uncertain economic outlook and continued rises in the costs of raw materials and energy, results will depend on the extent (level and time lag) to which the higher costs can be passed on to customers. Net sales are still expected to increase in 2023 and EBIT for the year is likely to be broadly in line with its 2022 level. The division is planning to invest around CHF 14mn to expand its capabilities in China and to establish a new lithium recycling operation in the USA.

Noteworthy Events:

CPH Group sold Full-Reuenthal industrial land to Full Property AG: The CPH Group has sold a large surface of industrial land of its former Full-Reuenthal operating site to Full Property AG in early February 2023. This is expected to result in non-operating income in the low double-digit million range for the FY2023 (we include CHF 15mn in our model). The new owners, Kuratle Group AG and Raurica Wald AG, plan to create a sustainable wood processing operation utilizing renewable energy and roundwood from Swiss forests to manufacture construction timber. The site would be home to innovative companies with an eco-friendly business model contributing to climate protection. The Full-Reuenthal site was previously used to manufacture chemical products and has been gradually taken over by new businesses, including two recycling firms.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 97.8 per share is higher than the previous target price (CHF 97.7) and implies an upside of ~10.4% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare each of CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S, and P/E – to analyze the relative valuation of the Group. CPH currently trades at a EV/EBITDA multiple of 5.2x (FY2023E), a significant 36% discount to the weighted average multiple of division peers.

The global economy is expected to recover gradually, with the IMF slashing 2023e to 2.9% and rising 2024e by 3.1%. In the short term, we believe ongoing inflationary headwinds and prospects of a slowdown may weigh on the company's prospects. On a positive note, the company was able to pass on the higher raw material and energy costs. In the same line, the current shortages of raw materials like recovered paper are expected to stay on a high level over the next few months with the respective impact on costs. Although over the past decade the performance of the Paper Division was demanding, the supply side squeeze should keep the division's profitability at an acceptable level. Moreover, the operating results of the Packaging and Chemistry divisions – both benefitting from somewhat higher visibility – are expected to improve. A better bottom-line at Group level along with net sales increases and the cost optimisation efforts are expected to result in a continued solid performance of the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E
CPH Chemie & Paper	6.7x	5.5x	5.4x	0.8x	0.8x	0.8x	10.5x	8.7x	8.7x
Paper peers:									
Holmen	NA	11.7x	12.8x	NA	3.1x	3.2x	NA	18.7x	21.1x
Stora Enso	9.6x	6.5x	6.4x	1.2x	1.0x	0.9x	12.4x	11.6x	11.5x
Altri Sgps	10.6x	7.2x	8.0x	1.2x	1.1x	1.2x	14.4x	10.7x	10.8x
Metsa Board	9.2x	6.7x	6.7x	1.4x	1.2x	1.1x	14.0x	9.9x	10.1x
Upm-Kymmene	10.4x	8.5x	8.0x	1.7x	1.5x	1.5x	18.3x	12.0x	11.2x
Norske Skogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cropper (James)	15.8x	NA	NA	1.1x	0.0x	0.0x	45.0x	15.4x	9.4x
Oji Holdings Corp	7.4x	932.5x	909.6x	0.4x	0.3x	0.3x	9.7x	6.9x	6.7x
Chemistry peers:									
Honeywell Int.	16.0x	15.1x	14.0x	3.9x	3.5x	3.4x	26.2x	21.5x	19.4x
Clariant	12.0x	NA	NA	1.4x	NA	NA	37.4x	NA	NA
Arkema	5.9x	6.4x	5.8x	0.8x	0.7x	0.7x	12.7x	10.5x	9.3x
Chemours Co/The	7.8x	6.3x	5.3x	1.7x	1.3x	0.8x	15.9x	8.3x	6.3x
Packaging peers:									
Macfarlane Group Plc	7.4x	0.1x	0.1x	0.7x	0.0x	0.0x	14.6x	9.5x	9.1x
Gerresheimer Ag	11.7x	8.8x	7.6x	1.7x	1.2x	1.1x	26.2x	14.9x	12.3x
West Pharmaceutical Services	34.8x	26.3x	23.2x	9.4x	7.7x	7.1x	53.0x	41.2x	35.9x
Convertidora Industrial Sa-A	3.1x	NA	NA	0.2x	NA	NA	6.5x	NA	NA
Psb Industries	4.7x	NA	NA	0.3x	NA	NA	11.3x	NA	NA
Astrapak Ltd-Uts	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	46.9x	NA	NA	0.2x	NA	NA	17.6x	NA	NA
Median				1.2x	1.2x	1.1x	15.2x	11.6x	10.8x
High	10.5x	8.5x	8.0x	9.4x	7.7x	7.1x	53.0x	41.2x	35.9x
Low	46.9x	932.5x	909.6x	0.2x	0.0x	0.0x	6.5x	6.9x	6.3x
Premium (disc) to peers	307%	6%	6%	(33%)	(33%)	(30%)	(31%)	(25%)	(19%)

Source: Bloomberg and Thomson Eikon (as on 24 February 2023)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E	3 year average	CY2023E	CY2024E
Weighted peer multiples	10.6x	8.7x	8.2x	1.1x	1.3x	1.3x	18.1x	13.5x	12.0x
CPH	6.7x	5.5x	5.4x	0.8x	0.8x	0.8x	10.5x	8.7x	8.7x
Premium (disc) to peers	(36%)	(36%)	(34%)	(24%)	(41%)	(39%)	(42%)	(35%)	(27%)

Source: Bloomberg and Thomson Eikon (as on 24 February 2023)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Chemistry sales	79	78	73	95	110	121	127
Paper sales	301	293	210	231	384	350	320
Packaging sales	153	153	162	171	231	258	284
Net Sales	534	525	445	497	725	729	732
Cost of Sales	(311)	(298)	(255)	(336)	(431)	(490)	(484)
Gross profit	222	227	190	161	294	239	248
Personnel cost	(92)	(93)	(93)	(92)	(102)	(102)	(104)
Outsourced maintenance/repairs	(19)	(20)	(17)	(18)	(28)	(18)	(18)
Other operating expense	(28)	(26)	(25)	(25)	(34)	(34)	(33)
Total operating costs	(139)	(139)	(135)	(135)	(163)	(155)	(155)
EBITDA	83	88	55	26	131	85	93
Depreciation	(30)	(30)	(29)	(27)	(16)	(19)	(20)
Amortisation	(1)	(1)	(1)	(1)	(2)	(1)	(1)
Operating profit (EBIT) before impairment	52	57	25	(3)	112	65	72
Impairment	0	0	0	(150)	0	0	0
Operating profit (EBIT)	52	57	25	(153)	112	65	72
Finance costs	(7)	(6)	(5)	(5)	(4)	(1)	0
Finance income	1	0	0	1	0	0	0
Total financial income (expenses)	(6)	(6)	(5)	(4)	(4)	(1)	0
Profit before taxes (before exceptional items)	46	51	20	(157)	108	64	72
Non-operating items	0	1	19	7	(8)	15	0
Income taxes	(3)	(3)	8	(2)	1	(3)	(7)
Profit attributable to the parent	42	48	47	(152)	101	76	65
Basic EPS	7.1	8.1	7.8	(25.3)	16.8	12.6	10.8
Diluted EPS	7.1	8.1	7.8	(25.3)	16.8	12.6	10.8
DPS	1.8	1.8	1.8	1.3	4.5	4.2	3.6

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Assets							
Non-current assets							
PPE	376.1	366.4	352.6	196.5	213.7	229.2	236.9
Intangible assets	5.8	5.6	5.6	5.8	4.5	4.6	4.7
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current assets	55.3	54.0	64.8	58.4	55.8	55.8	55.8
Total non-current assets	447.2	436.0	432.9	270.7	284.0	299.6	307.5
Current assets							
Inventories	69.6	78.5	78.3	87.5	113.1	113.3	115.9
Trade accounts receivable	72.1	72.4	52.9	69.3	93.9	94.7	95.0
Other receivables	13.1	14.0	17.2	28.5	21.9	16.9	13.9
Prepaid expenses and accrued income	9.2	8.6	6.7	9.2	9.6	9.6	9.6
Short-term financial receivables	100.3	0.0	0.0	0.1	0.0	0.0	0.0
Liquid funds and Securities	89.0	93.1	116.3	95.1	143.6	83.7	113.0
Total assets	800.5	702.7	704.2	560.4	666.2	617.9	655.0
Shareholders' Equity and Liabilities							
Share capital	12.0	12.0	1.2	1.2	1.2	1.2	1.2
Capital reserves	15.0	4.2	4.2	(0.1)	(0.1)	(0.1)	(0.1)
Profit reserves	336.2	375.2	418.5	459.5	397.1	370.1	420.4
Net result for the year	42.3	48.3	46.9	(151.6)	0.0	75.5	64.9
Non-current liabilities							
Long-term financial liabilities	120.5	116.8	109.7	106.6	0.0	(0.0)	(0.0)
Pension scheme liabilities	1.3	0.7	1.2	1.4	1.7	1.7	1.7
Other long-term liabilities	0.8	0.6	0.4	0.3	0.0	0.0	0.0
Long-term provisions	50.0	47.5	31.5	24.1	31.4	26.4	23.4
Current liabilities							
Trade accounts payable	69.7	66.3	56.8	84.8	93.0	100.0	100.3
Other payables	4.1	3.6	4.6	3.9	6.5	6.5	6.5
Accrued liabilities and deferred income	20.0	16.3	16.8	18.3	27.2	27.2	27.2
Short-term financial liabilities	125.8	5.9	8.1	3.2	98.9	0.0	0.0
Short-term provisions	1.2	3.8	3.3	7.4	7.8	7.8	7.8
Total liabilities	393.3	261.4	232.4	249.9	266.6	169.7	167.0
Total equity and liab.	800.5	702.7	704.2	560.4	666.2	617.9	655.0

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net profit for the period	42.3	48.5	47.0	(151.4)	101.0	75.6	65.0
Non-cash adjustments:	26.3	31.2	(2.2)	169.5	28.4	4.7	20.8
Change in CA and CL:							
(Increase)/ decrease in inventories	(8.6)	(10.2)	(4.1)	(9.6)	(27.2)	(0.3)	(2.6)
Decrease in trade accounts receivable	5.0	(1.3)	20.5	(15.5)	(26.7)	(0.8)	(0.3)
Increase/ (decrease) in trade accounts payable	(1.1)	(2.8)	(9.0)	30.7	6.9	7.0	0.3
Other changes in working capital	0.4	(4.3)	2.8	(7.9)	15.3	0.0	0.0
CFO	64.3	61.0	55.0	15.8	97.6	86.3	83.2
Investments in tangible fixed assets	(22.3)	(21.9)	(17.5)	(23.0)	(32.9)	(34.2)	(27.5)
Disposals of tangible fixed assets	6.3	0.8	5.2	5.2	4.3	15.0	0.0
Investments in intangible assets	(2.2)	(1.0)	(1.3)	(1.6)	(1.0)	(1.1)	(1.2)
Sale of subsidiary/ Divestiture of interests	0.0	0.0	0.1	0.2	0.0	0.0	0.0
Investments in business activities	(27.9)	0.0	(1.6)	0.0	0.0	0.0	0.0
Repayment of long-term financial receivables	0.0	100.9	(0.3)	(0.1)	0.0	0.0	0.0
CFI	(46.0)	78.9	(15.3)	(19.2)	(29.6)	(20.3)	(28.7)
Increase/ (Decrease) in short-term financial liabilities and receivables	(4.3)	(123.4)	(4.4)	(6.9)	(3.2)	(98.9)	0.0
Increase/ (Decrease) in long-term financial liabilities	(3.0)	(1.1)	0.0	0.0	(6.5)	(0.0)	0.0
Increase in other long-term liabilities	2.1	(0.2)	(0.4)	(0.3)	(1.3)	0.0	0.0
Dividends to shareholders	(3.9)	(10.9)	(10.8)	(10.8)	(7.8)	(27.0)	(25.2)
CCF	(9.1)	(135.6)	(15.6)	(18.0)	(19.0)	(125.9)	(25.2)
Exchange (losses)/gains	(0.3)	(0.2)	(0.9)	0.2	(0.5)	0.0	0.0
Net change in cash	8.9	4.1	23.2	(21.2)	48.5	(59.9)	29.3
Opening cash balance	80.1	89.0	93.1	116.3	95.1	143.6	83.7
Closing cash balance	89.0	93.1	116.3	95.1	143.6	83.7	113.0

Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth Ratios							
Sales Growth	14%	(2%)	(15%)	12%	46%	1%	0%
Chemistry division	5%	(2%)	(6%)	30%	16%	10%	5%
Paper division	14%	(3%)	(29%)	10%	67%	(9%)	(9%)
Packaging division	17%	0%	6%	5%	35%	12%	10%
Operating Profit Growth	NM	10%	(56%)	NM	NM	(42%)	11%
Net Income Growth	165%	14%	(3%)	NM	NM	(25%)	(14%)
Profitability Ratios (%)							
Operating margin	10%	11%	6%	(1%)	16%	9%	10%
Chemistry division	8%	6%	6%	16%	13%	11%	11%
Paper division	10%	12%	(1%)	(11%)	20%	7%	8%
Packaging division	10%	11%	13%	3%	10%	10%	11%
EBITDA Margin %	16%	17%	12%	5%	18%	12%	13%
Net Margin (%)	8%	9%	11%	(31%)	14%	10%	9%
Return Ratios							
Profit Margin	8%	9%	11%	(31%)	14%	10%	9%
Asset Turnover	0.7x	0.7x	0.6x	0.8x	1.2x	1.1x	1.1x
Financial Leverage	1.9x	1.8x	1.5x	1.6x	1.7x	1.5x	1.4x
Dupont ROE (%)	11%	11%	10%	(39%)	28%	18%	14%
ROCE (%)	10%	10%	4%	(1%)	28%	14%	15%
ROA (%)	6%	6%	7%	(24%)	16%	12%	10%
Leverage Ratios							
Debt - Equity Ratio	0.6x	0.3x	0.2x	0.4x	0.2x	(0.0x)	(0.0x)
Net Debt - Equity Ratio	0.4x	0.1x	0.0x	0.0x	(0.1x)	(0.2x)	(0.2x)
Interest Coverage	11.8x	9.1x	9.1x	(1.1x)	46.8x	56.7x	NM
Liquidity Ratios							
Current Ratio	1.6x	2.8x	3.0x	2.5x	1.6x	2.2x	2.4x
Quick Ratio	1.3x	2.0x	2.2x	1.7x	1.2x	1.4x	1.6x
Valuation Ratios							
EV/EBITDA	5.3x	5.0x	8.0x	17.1x	3.4x	5.2x	4.7x
P/E	10.7x	9.3x	9.6x	NM	4.5x	6.0x	7.0x

Source: Research Dynamics, Bloomberg, Company data

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