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# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## 1HFY2023 Results update

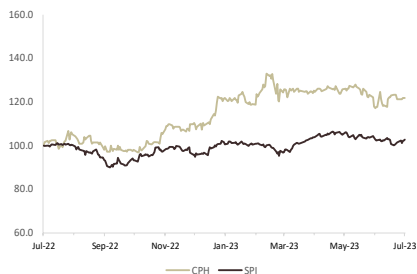
24 July 2023

### Company Data

Price:	CHF 87.00
Market Cap:	CHF 522.0mn
Free Float:	11.1%
No. of shares:	6.0mn
Avg. traded volume (30 day):	839.0
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	638.8	640.4
EBITDA %	5.2%	18.1%	14.8%	11.5%
EBIT %	(0.5%)	15.5%	11.7%	8.3%
Net Margin %	(30.5%)	13.9%	12.2%	7.0%
Basic EPS	(25.3)	16.8	12.99	7.48
Diluted EPS	(25.3)	16.8	12.99	7.48
DPS	1.30	4.5	4.20	3.60
Equity Ratio %	55.2%	59.8%	74.8%	75.6%
Capex	(19.4)	(29.6)	(20.3)	(28.7)
P/Sales	0.9x	0.6x	0.8x	0.8x
P/E	NM	4.5x	6.7x	11.6x
EV/EBITDA	17.1x	3.4x	4.7x	6.1x

Source: Research Dynamics, Company data

### Next Events

Baader Investment Conference	19 Sep 2023
Investor Day	26 Sep 2023
ZKB Swiss Conference	01 Nov 2023

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## Mixed performance amid challenging market

### Profitability remains intact

In 1HFY2023, CPH's net sales declined 7.8% year-on-year (YoY) to CHF 332.0mn. In constant currency (CC) net sales declined 3.9% YoY. This decrease was primarily impacted by a significant downturn in the Paper division, which saw a decline of 24.5% YoY. Nevertheless, the Packaging and Chemistry divisions' growth partially offset the decline. The Packaging division witnessed a growth of 14.4% YoY, while the Chemistry division showed a more modest increase of 1.9% YoY. The demand trends varied among the three business divisions. The Packaging division's production facilities were well-utilised, but the Chemistry division experienced increased margin pressures, and the Paper division faced a steep decline in demand. Overall, the divisions had mixed performance.

In 1HFY2023, raw material prices showed diverse trends. Paper prices recovered but remained at a high level. The plastics market, specifically PVC, experienced reduced demand due to the construction sector's activity, leading to a decline in prices. Despite a general decline in energy prices, energy costs were higher during this period. Despite the rise in raw material and energy costs, the company's EBITDA remained steady at CHF 62.0mn (1HFY2022: CHF 62.0mn), and the corresponding margin expanded to 18.7% (1HFY2022: 17.1%).

In anticipation of supply shortages, pharmaceutical manufacturers boosted their safety stocks of raw materials and ordered packaging films well in advance during 2022. Consequently, the Packaging division witnessed record-breaking order volumes in 1HFY2023. This enabled the company to record growth in EBIT to CHF 53.0mn (1HFY2022: CHF 52.0mn), and the corresponding margin expanded to 16.0% (1HFY2022: 14.4%). The net result of the company attributable to common shareholders improved to CHF 61.0mn (1HFY2022: CHF 47.0mn). The significant increase is largely due to the land sales reported at the Full-Reuenthal operating site.

### Segmental performance

**Paper:** In 1HFY2023, net sales of the Paper division decreased by 24.5% (in CC: -21.0%) YoY to CHF 142.0mn. During this period, there was a significant decrease in demand for newsprint (-25.0%) and coated magazine paper (nearly -30.0%) in Western Europe. The increasing impact of digitalisation led to a more pronounced structural shift, resulting in a decline in the printing of newspapers and magazines. Additionally, customers opted to reduce their paper stocks in anticipation of potential energy shortages during the autumn season. Consequently, the paper manufacturers in the region experienced underutilisation of their capacities in the first half of the year. In response to the challenging market conditions, some competitors in the Paper division announced the closure of certain facilities. However, more than these measures are needed to restore a more favourable balance between supply and demand. As a result, the division's EBIT declined by 24.9% to CHF 26.0mn (1HFY2022: CHF 34.0mn), and the corresponding margin came in at 18.0% (1HFY2022: 18.1%).

**Packaging:** Net sales were up 14.4% (in CC: +19.1%) YoY to CHF 133.0mn (1HFY2022: CHF 116.0mn), driven by a substantial increase in sales volumes. All production facilities within the division experienced robust utilisation and received substantial order volumes. Despite facing elevated transportation and raw material expenses during 1HFY2023, the company successfully passed on much of these increased costs to its customers. Consequently, the division achieved an EBIT of CHF 21.0mn (1HFY2022: CHF 11.0mn), resulting in an expanded corresponding margin of 15.6% (1HFY2022: 9.7%).

**Chemistry:** Net sales increased 1.9% (in CC: +6.3%) YoY to CHF 58.0mn, driven by improved demand in most product segments as facilities operated at high-capacity utilisations. The division's molecular sieve facilities were well-utilised for ethanol, natural gas, and industrial gas purification. Deuterated products for laboratory analyses and OLED displays had strong demand. However, medical sector demand declined from pandemic levels, and weaker construction activity reduced the need for molecular sieve powders in window manufacturing. The division also grappled with higher raw material costs, notably lithium, but remained adaptive and innovative to meet market demands; the division's EBIT came in at CHF 7.0mn, (1HFY2022: 7.0mn) and the corresponding margin contracted to 11.9% (1HFY2022: 13.0%).

**Outlook for FY2023e**

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 FY2023e.

**Group:** Concrete divisional developments will depend on the unfolding of macroeconomic uncertainties in the key markets and time lags in passing the higher raw material costs to the market. Management expects FY2023e sales to be lower than in FY2022 and an EBIT in the higher double-digit millions. The absence of any unforeseen circumstances, the net result is expected in a similar range.

**Paper:** Raw material prices are expected to remain high levels in FY2023e. At the same time, elevated paper prices may not sustain and could experience pressure in FY2023e. As demand for newspaper and magazine printing paper in Europe already declined by 15.0% and ~30.0%, respectively, in 1HFY2023, the Paper division expects demand to be lower for the year as a whole, resulting in substantially lower net sales and EBIT compared to FY2022.

**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 2.0% in FY2023e. Moreover, with plans to pass on the raw materials costs to the market, the EBIT margin in FY2023e is expected to be ~14.0%.

**Chemistry:** Net sales are expected to increase in FY2023e, and EBIT for the year is likely to be broadly in line with its FY2022 level. The division's planned investment of around CHF 14.0mn in infrastructure investments at the Chinese operating site and efficiency enhancements at the U.S. operation are currently in progress.

**Valuation and conclusion**

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 97.8 per share, same as the previous target price (CHF 97.8) and implies an upside of 12.4% from current levels. For relative valuation, since the Group operates in three entirely different divisions, we compare CPH's divisions with different sets of relevant industry peers. We have employed three parameters – EV/EBITDA, P/S, and P/E – to analyse the relative valuation of the Group. CPH currently trades at an EV/EBITDA multiple of 5.3x (FY2023e), a significant 39.0% 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 could 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 2HFY2023e 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 remain resilient. A better bottom line at Group level and the cost optimisation efforts are expected to result in a healthy 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	5.2x	5.3x	5.0x	1.2x	0.7x	0.7x	15.4x	7.0x	8.6x
<b>Paper peers:</b>									
Holmen	NA	10.4x	11.5x	NA	2.8x	2.9x	NA	17.0x	19.2x
Stora Enso	7.9x	8.6x	6.7x	1.0x	0.8x	0.8x	13.7x	18.3x	12.3x
Altri Sgps	7.1x	7.4x	7.1x	1.7x	1.1x	1.1x	10.0x	14.0x	12.4x
Metsa Board	11.4x	7.5x	6.5x	1.2x	1.2x	1.0x	14.0x	12.8x	10.4x
Upm-Kymmene	8.5x	9.6x	7.9x	1.4x	1.3x	1.3x	12.8x	15.8x	11.8x
Norske Skogindustrier	10.8x	NA	NA	0.0x	NA	NA	2.8x	NA	NA
Cropper (James)	16.8x	0.1x	0.1x	1.3x	0.0x	0.0x	35.3x	19.7x	12.2x
Oji Holdings Corp	8.4x	NA	NA	0.4x	0.3x	0.3x	13.5x	7.8x	6.8x
<b>Chemistry peers:</b>									
Honeywell Int.	13.0x	15.8x	15.0x	2.8x	3.7x	3.6x	21.0x	22.7x	20.6x
Clariant	10.9x	NA	NA	1.4x	NA	NA	33.0x	NA	NA
Arkema	6.1x	6.1x	5.6x	0.8x	0.7x	0.7x	12.6x	10.4x	8.9x
Chemours Co/The	14.4x	NA	NA	2.4x	NA	NA	30.3x	NA	NA
<b>Packaging peers:</b>									
Macfarlane Group Plc	10.5x	0.1x	0.1x	0.7x	0.0x	0.0x	16.7x	9.1x	8.7x
Gerresheimer Ag	10.5x	11.0x	9.4x	1.6x	1.8x	1.6x	25.2x	22.1x	18.4x
West Pharmaceutical Services	24.7x	33.0x	29.0x	5.3x	9.4x	8.6x	41.9x	49.0x	43.2x
Convertidora Industrial Sa-A	5.0x	NA	NA	0.3x	NA	NA	41.9x	NA	NA
Psb Industries	4.7x	NA	NA	0.3x	NA	NA	15.3x	NA	NA
Astrapak Ltd-Uts	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bkcare Ltd	34.4x	NA	NA	0.0x	NA	NA	6.9x	NA	NA
Median	10.5x	8.6x	7.1x	1.2x	1.1x	1.1x	15.3x	16.4x	12.2x
High	34.4x	33.0x	29.0x	5.3x	9.4x	8.6x	41.9x	49.0x	43.2x
Low	4.7x	0.1x	0.1x	0.0x	0.0x	0.0x	2.8x	7.8x	6.8x
Premium (disc) to peers	(50%)	(39%)	(30%)	3%	(36%)	(35%)	1%	(57%)	(30%)

Source: Bloomberg and Thomson Eikon (as on 21 July 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	12.1x	10.0x	9.0x	1.3x	1.9x	1.8x	20.4x	18.2x	15.4x
CPH	5.2x	5.3x	5.0x	1.2x	0.7x	0.7x	15.4x	7.0x	8.6x
Premium (disc) to peers	(57%)	(47%)	(45%)	(10%)	(63%)	(61%)	(25%)	(61%)	(44%)

Source: Bloomberg and Thomson Eikon (as on 21 July 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	114	117
Paper sales	301	293	210	231	384	280	266
Packaging sales	153	153	162	171	231	245	257
<b>Net Sales</b>	<b>534</b>	<b>525</b>	<b>445</b>	<b>497</b>	<b>725</b>	<b>638.8</b>	<b>640.4</b>
Cost of Sales	(311)	(298)	(255)	(336)	(431)	(393)	(411)
<b>Gross profit</b>	<b>222</b>	<b>227</b>	<b>190</b>	<b>161</b>	<b>294</b>	<b>246</b>	<b>229</b>
Personnel cost	(92)	(93)	(93)	(92)	(102)	(101)	(106)
Outsourced maintenance/repairs	(19)	(20)	(17)	(18)	(28)	(19)	(19)
Other operating expense	(28)	(26)	(25)	(25)	(34)	(31)	(31)
<b>Total operating costs</b>	<b>(139)</b>	<b>(139)</b>	<b>(135)</b>	<b>(135)</b>	<b>(163)</b>	<b>(151)</b>	<b>(156)</b>
<b>EBITDA</b>	<b>83</b>	<b>88</b>	<b>55</b>	<b>26</b>	<b>131</b>	<b>95</b>	<b>74</b>
Depreciation	(30)	(30)	(29)	(27)	(16)	(19)	(20)
Amortisation	(1)	(1)	(1)	(1)	(2)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>(3)</b>	<b>112</b>	<b>75</b>	<b>53</b>
Impairment	0	0	0	(150)	0	0	0
<b>Operating profit (EBIT)</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>(153)</b>	<b>112</b>	<b>75</b>	<b>53</b>
Finance costs	(7)	(6)	(5)	(5)	(4)	(1)	0
Finance income	1	0	0	1	0	0	0
<b>Total financial income (expenses)</b>	<b>(6)</b>	<b>(6)</b>	<b>(5)</b>	<b>(4)</b>	<b>(4)</b>	<b>(1)</b>	<b>0</b>
<b>Profit before taxes (before exceptional items)</b>	<b>46</b>	<b>51</b>	<b>20</b>	<b>(157)</b>	<b>108</b>	<b>74</b>	<b>53</b>
Non-operating items	0	1	19	7	(8)	17	0
Income taxes	(3)	(3)	8	(2)	1	(13)	(8)
<b>Profit attributable to the parent</b>	<b>42</b>	<b>48</b>	<b>47</b>	<b>(152)</b>	<b>101</b>	<b>78</b>	<b>45</b>
Basic EPS	7.1	8.1	7.8	(25.3)	16.8	13.0	7.5
Diluted EPS	7.1	8.1	7.8	(25.3)	16.8	13.0	7.5
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
<b>Assets</b>							
<b>Non-current assets</b>							
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
<b>Total non-current assets</b>	<b>447.2</b>	<b>436.0</b>	<b>432.9</b>	<b>270.7</b>	<b>284.0</b>	<b>299.6</b>	<b>307.5</b>
<b>Current assets</b>							
Inventories	69.6	78.5	78.3	87.5	113.1	91.0	96.2
Trade accounts receivable	72.1	72.4	52.9	69.3	93.9	83.0	83.2
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	100.6	110.0
<b>Total assets</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>560.4</b>	<b>666.2</b>	<b>600.7</b>	<b>620.4</b>
<b>Shareholders' Equity and Liabilities</b>							
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	422.8
Net result for the year	42.3	48.3	46.9	(151.6)	0.0	77.9	44.9
<b>Non-current liabilities</b>							
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
<b>Current liabilities</b>							
Trade accounts payable	69.7	66.3	56.8	84.8	93.0	80.3	83.2
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
<b>Total liabilities</b>	<b>393.3</b>	<b>261.4</b>	<b>232.4</b>	<b>249.9</b>	<b>266.6</b>	<b>150.1</b>	<b>150.0</b>
<b>Total equity and liab.</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>560.4</b>	<b>666.2</b>	<b>600.7</b>	<b>620.4</b>

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	78.0	45.0
Non-cash adjustments:	26.3	31.2	(2.2)	169.5	28.4	4.7	20.8
<b>Change in CA and CL:</b>							
(Increase)/ decrease in inventories	(8.6)	(10.2)	(4.1)	(9.6)	(27.2)	22.0	(5.1)
Decrease in trade accounts receivable	5.0	(1.3)	20.5	(15.5)	(26.7)	11.0	(0.2)
Increase/ (decrease) in trade accounts payable	(1.1)	(2.8)	(9.0)	30.7	6.9	(12.7)	2.9
Other changes in working capital	0.4	(4.3)	2.8	(7.9)	15.3	0.0	0.0
<b>CFO</b>	<b>64.3</b>	<b>61.0</b>	<b>55.0</b>	<b>15.8</b>	<b>97.6</b>	<b>103.1</b>	<b>63.3</b>
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
<b>CFI</b>	<b>(46.0)</b>	<b>78.9</b>	<b>(15.3)</b>	<b>(19.2)</b>	<b>(29.6)</b>	<b>(20.3)</b>	<b>(28.7)</b>
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)
<b>CCF</b>	<b>(9.1)</b>	<b>(135.6)</b>	<b>(15.6)</b>	<b>(18.0)</b>	<b>(19.0)</b>	<b>(125.9)</b>	<b>(25.2)</b>
Exchange (losses)/gains	(0.3)	(0.2)	(0.9)	0.2	(0.5)	0.0	0.0
<b>Net change in cash</b>	<b>8.9</b>	<b>4.1</b>	<b>23.2</b>	<b>(21.2)</b>	<b>48.5</b>	<b>(43.1)</b>	<b>9.4</b>
Opening cash balance	80.1	89.0	93.1	116.3	95.1	143.6	100.5
<b>Closing cash balance</b>	<b>89.0</b>	<b>93.1</b>	<b>116.3</b>	<b>95.1</b>	<b>143.6</b>	<b>100.5</b>	<b>110.0</b>

### Key Ratios

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Growth Ratios</b>							
Sales Growth	14%	(2%)	(15%)	12%	46%	(12%)	0%
Chemistry division	5%	(2%)	(6%)	30%	16%	3%	3%
Paper division	14%	(3%)	(29%)	10%	67%	(27%)	(5%)
Packaging division	17%	0%	6%	5%	35%	6%	5%
Operating Profit Growth	NM	10%	(56%)	NM	NM	(33%)	(29%)
Net Income Growth	165%	14%	(3%)	NM	NM	(23%)	(42%)
<b>Profitability Ratios (%)</b>							
Operating margin	10%	11%	6%	(1%)	16%	12%	8%
Chemistry division	8%	6%	6%	16%	13%	11%	9%
Paper division	10%	12%	(1%)	(11%)	20%	10%	7%
Packaging division	10%	11%	13%	3%	10%	13%	9%
EBITDA Margin %	16%	17%	12%	5%	18%	15%	12%
Net Margin (%)	8%	9%	11%	(31%)	14%	12%	7%
<b>Return Ratios</b>							
Profit Margin	8%	9%	11%	(31%)	14%	12%	7%
Asset Turnover	0.7x	0.7x	0.6x	0.8x	1.2x	1.0x	1.0x
Financial Leverage	1.9x	1.8x	1.5x	1.6x	1.7x	1.5x	1.3x
Dupont ROE (%)	11%	11%	10%	(39%)	28%	18%	10%
ROCE (%)	10%	10%	4%	(1%)	28%	17%	11%
ROA (%)	6%	6%	7%	(24%)	16%	12%	7%
<b>Leverage Ratios</b>							
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	65.3x	1936.7x
<b>Liquidity Ratios</b>							
Current Ratio	1.6x	2.8x	3.0x	2.5x	1.6x	2.5x	2.5x
Quick Ratio	1.3x	2.0x	2.2x	1.7x	1.2x	1.7x	1.7x
<b>Valuation Ratios</b>							
EV/EBITDA	5.3x	5.0x	8.0x	17.1x	3.4x	4.7x	6.1x
P/E	10.7x	9.3x	9.6x	NM	4.5x	6.7x	11.6x

Source: Research Dynamics, Bloomberg, Company data

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