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# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## 1H2022 Results update

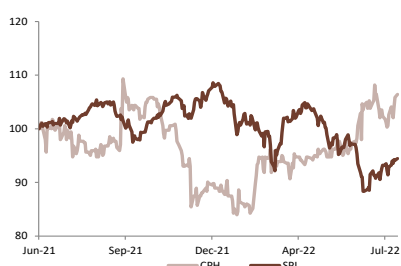
26 July 2022

### Company Data

Price:	CHF 73.00
Market Cap:	CHF 438.0mn
Free Float:	56.9%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,343
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

### Share Price Development



Source: Bloomberg

### Key Financial Data

	2020	2021	2022E	2023E
Sales	445.2	496.7	707.4	645.3
EBITDA %	12.4%	5.2%	14.7%	11.9%
EBIT %	5.5%	(0.5%)	11.9%	8.6%
Net Margin %	10.5%	(30.5%)	10.8%	7.0%
Basic EPS	7.82	(25.26)	12.74	7.49
Diluted EPS	7.82	(25.26)	12.74	7.49
DPS	1.80	1.30	1.30	1.80
Equity Ratio %	66.8%	55.2%	58.1%	62.0%
Capex	(13.5)	(19.4)	(51.6)	(28.9)
P/Sales	0.9x	0.8x	0.6x	0.0x
P/E	8.6x	NM	5.7x	9.7x
EV/EBITDA	7.1x	15.3x	4.4x	5.9x

Source: Research Dynamics, Company data

### Next Events

CMD	13 Sept 2022
ZKB Equity Conference	3/4 Nov 2022
FY 2022 report	21 Feb 2023

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## Broad-based growth across all divisions

### Better volumes and realizations of price increases lift profitability

For 1H2022, CPH's net sales increased 47.7% YoY to CHF 360mn, driven by growth in all three segments thanks to strong demand, despite the adverse impacts of Ukraine war, COVID-19 related lockdowns in China and challenges in raw material procurement. Adjusted for currency fluctuations, topline growth would have amounted to 51%. The Paper Division's revenue improved significantly by 78% YoY, mainly due to lower paper production volumes as a result of permanent capacity closures and a long strike at one of the Paper division's competitors. The Chemistry and the Packaging Divisions registered 18.9% YoY and 27.5% YoY growth, respectively. Despite the substantial rise in raw material prices, transport and energy costs, the company's EBITDA increased significantly to CHF 61.7mn (1H2021: CHF 20.0mn) and the corresponding margin expanded to 17.1% (1H2021: 8.2%). During the first half-year, the company's Paper and Packaging division reversed its margin decline of the prior-year period. Along with strong volumes, higher sales price and lower depreciation following the fixed asset impairment charges in FY2021, this enabled the company to record substantial growth in EBIT to CHF 51.9mn (1H2021: CHF 5.7mn) and the corresponding margin expanded to 14.4% (1H2021: 2.4%). The net result of the company attributable to common shareholders improved to CHF 47.5mn (1H2021: CHF 5.9mn).

### Segmental performance

**Paper:** In 1H2022, net sales of the Paper division increased 78.0% YoY to CHF 187.6mn. During 1H2022, there was a slight increase in demand for newsprint, whereas the demand for magazine paper declined in Western Europe. The paper production was hampered 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 despite a significant increase in costs of energy and the division's prime raw materials like waste wood and recovered paper. As a result, the division's EBIT came in at CHF 34mn (1H2021: loss of CHF 10.1mn) and the corresponding margin at 18.1% (1H2021: -9.6%).

**Packaging:** Net sales were up 27.5% YoY to CHF 115.8mn (1H2021: CHF 90.8mn) driven by an increase in sales volume and prices along with a growing proportion of high-barrier films sold. Further, the demand for pharmaceutical packagings was high in Europe in 1H2022 mainly for non-prescription medicines. 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. Despite the coronavirus restrictions imposed by the Chinese government, production in Suzhou was not directly impacted. The company witnessed higher transportation and raw material costs in 1H2022. However, the higher costs were largely passed on to end users, enabling the company to record an EBIT of CHF 11.2mn (1H2021: CHF 8.4mn) and the corresponding margin expanded to 9.7% (1H2021: 9.3%).

**Chemistry:** Net sales increased 18.9% YoY to CHF 56.4mn, driven by improved demand in all product segments as facilities were operating at high capacity utilisations during 1H2022. 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 in the division's transport logistics (e.g delivery delays due to the closure of Shanghai port), the division's EBIT fell 1.6% YoY to CHF 7.3mn and the corresponding margin contracted to 13% (1H2021: 15.7%).

### Cautious outlook for FY2022

The near-term macro-economic uncertainties like the impact of geopolitical unrest between Russia and Ukraine on energy supplies, 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 2H2022.

**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 FY2022 sales to be substantially higher than in FY2021 and

an EBIT high 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 2H2022 and further price rises can not be ruled out. This along with supply-demand balance is expected to determine the paper price trends. The Paper division expects to maintain its net sales growth, however, the operating margin could start to be under pressure in 2H2022.

**Packaging:** Despite the new coating plant in Brazil commencing its operations in autumn, the division's net sales are expected to slow down in 2H2022. Moreover, with plans to pass on the raw materials costs to the market, the operating margin in 2H2022 should be broadly maintained at the 1H2022 level.

**Chemistry:** Product demand is likely to improve leading to higher order volumes. With the lithium product manufacturing capacity in the USA coming into operation, the company expects to report double-digit net sales growth in FY2022. However, due to rising raw material and transport costs, margins are expected to be under pressure, slightly below the FY2021 levels.

#### **Noteworthy Events:**

**Perlen Packaging and Cipatex collaborate on mono PVC pharmaceutical films:** To expand its activities in Latin America, Perlen Packaging entered into an exclusive collaboration with Brazil-based PVC manufacturer Cipatex on 05 July 2022. As a part of the collaboration, the Group will support the modernisation of Cipatex's facility at Sao Paulo to align it fully to pharmaceutical mono PVC film requirements. This collaboration is in line with the Group's strategy of maintaining its own coating capacities in the pharmaceutical sector's key areas in Europe, Asia and the Americas. Further, the collaboration should also ensure the long-term and reliable supply of high-quality mono PVC films.

#### **Valuation and conclusion**

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 97.7 per share is higher than the previous target price (CHF 92.3) and implies an upside of ~34.0% 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 5.9x (FY2023E), a significant 27% discount to the weighted average multiple of division peers.

The global economy is expected to recover gradually, with the IMF slashing 2022e and 2023e forecast to 3.6%. 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 in the last couple of years the performance of the Paper Division was not encouraging, the supply side squeeze should keep the division's profitability at an acceptable level. Moreover, the operating results of the Packaging and Chemistry divisions are expected to improve. A better bottom-line at Group level along with net sales increases and the cost optimisation efforts are expected to offer a required boost to the company's stock price.

**Exhibit 1: CPH – Comparison with division peers**

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
CPH Chemie & Paper	6.1x	4.5x	5.9x	0.8x	0.6x	0.7x	10.5x	5.8x	9.7x
<b>Paper peers:</b>									
Holmen	19.4x	11.6x	14.9x	3.4x	3.3x	3.5x	18.7x	17.5x	24.6x
Stora Enso	10.1x	6.2x	7.2x	1.2x	1.1x	1.1x	13.5x	9.5x	11.5x
Altri	9.9x	6.4x	9.0x	1.2x	1.4x	1.6x	13.3x	7.5x	11.7x
Metsa Board	9.8x	5.3x	6.3x	1.4x	1.2x	1.3x	14.5x	8.0x	10.0x
UPM-Kymmene	9.7x	8.9x	8.0x	1.7x	1.4x	1.4x	17.5x	13.5x	12.5x
Norskse Scogindustrier	4.4x	2.8x	4.3x	0.3x	0.5x	0.4x	24.5x	2.9x	8.2x
James Cropper	16.9x	0.1x	0.1x	1.2x	0.0x	0.0x	42.4x	17.3x	12.5x
OJI Holdings	7.4x	6.5x	6,1	0.4x	0.3x	0.3x	10.8x	7.3x	6.7x
<b>Chemistry peers:</b>									
Honeywell Int.	15.7x	15.2x	14.0x	3.8x	3.5x	3.3x	25.1x	21.1x	18.9x
Clariant	12.3x	8.8x	8.6x	1.5x	1.5	1.4x	44.3x	15.3x	15.1x
Arkema	6.4x	5.2x	5.9x	0.9x	0.7x	0.7x	14.1x	8.1x	9.2x
<b>Packaging peers:</b>									
MacFarlane Group	8.4x	0.1x	0.1x	0.7x	0.0x	0.0x	16.2x	10.6x	10.4x
Gerresheimer	11.9x	8.8x	7.8x	1.8x	1.2x	1.1x	22.7x	13.2x	11.1x
West Pharmaceutical Services	36.0x	20.9x	18.8x	9.2x	6.9x	6.4x	56.9x	30.5x	27.7x
Convertidora Industrial	3.5x	NA	NA	0.2x	NA	NA	5.9x	NA	NA
PSB Industries	4.1x	NA	NA	0.3x	NA	NA	13.2x	NA	NA
Biccare Ltd	48.4x	NA	NA	0.1x	NA	NA	16.3x	NA	NA
Median	9.9x	6.5x	7.8x	1.2x	1.2x	1.2x	16.3x	11.9x	11.6x
High	48.4x	20.9x	18.8x	9.2x	6.9x	6.4x	56.9x	30.5x	27.7x
Low	3.5x	0.1x	0.1x	0.1x	0.0x	0.0x	5.9x	2.9x	6.7x
Premium (disc) to peers	(39%)	(31%)	(24%)	(28%)	(46%)	(43%)	(36%)	(51%)	(16%)

Source: Bloomberg and Thomson Eikon (as on 25 July 2022)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E	3 year average	CY2022E	CY2023E
Weighted peer multiples	13.8x	7.6x	8.1x	1.7x	1.7x	1.6x	21.8x	13.0x	13.6x
CPH	6.1x	4.5x	5.9x	0.8x	0.6x	0.7x	10.5x	5.8x	9.7x
Premium (disc) to peers	(56%)	(42%)	(27%)	(51%)	(62%)	(58%)	(52%)	(55%)	(28%)

Source: Bloomberg and Thomson Eikon (as on 25 July 2022)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Chemistry sales	75	79	78	73	95	113	115
Paper sales	264	301	293	210	231	374	320
Packaging sales	130	153	153	162	171	220	210
<b>Net Sales</b>	<b>470</b>	<b>534</b>	<b>525</b>	<b>445</b>	<b>497</b>	<b>707</b>	<b>645</b>
Cost of Sales	(309)	(311)	(298)	(255)	(336)	(442)	(403)
<b>Gross profit</b>	<b>161</b>	<b>222</b>	<b>227</b>	<b>190</b>	<b>161</b>	<b>265</b>	<b>243</b>
Personnel cost	(84)	(92)	(93)	(93)	(92)	(101)	(105)
Outsourced maintenance/repairs	(17)	(19)	(20)	(17)	(18)	(25)	(26)
Other operating expense	(26)	(28)	(26)	(25)	(25)	(35)	(35)
<b>Total operating costs</b>	<b>(127)</b>	<b>(139)</b>	<b>(139)</b>	<b>(135)</b>	<b>(135)</b>	<b>(162)</b>	<b>(166)</b>
<b>EBITDA</b>	<b>34</b>	<b>83</b>	<b>88</b>	<b>55</b>	<b>26</b>	<b>104</b>	<b>77</b>
Depreciation	(30)	(30)	(30)	(29)	(27)	(18)	(20)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>3</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>(3)</b>	<b>84</b>	<b>55</b>
Impairment	0	0	0	0	(150)	0	0
<b>Operating profit (EBIT)</b>	<b>3</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>(153)</b>	<b>84</b>	<b>55</b>
Finance costs	(8)	(7)	(6)	(5)	(5)	(2)	(2)
Finance income	2	1	0	0	1	0	0
<b>Total financial income (expenses)</b>	<b>(7)</b>	<b>(6)</b>	<b>(6)</b>	<b>(5)</b>	<b>(4)</b>	<b>(2)</b>	<b>(2)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>(4)</b>	<b>46</b>	<b>51</b>	<b>20</b>	<b>(157)</b>	<b>82</b>	<b>53</b>
Non-operating items	23	0	1	19	7	0	0
Income taxes	(3)	(3)	(3)	8	(2)	(5)	(8)
<b>Profit attributable to the parent</b>	<b>16</b>	<b>42</b>	<b>48</b>	<b>47</b>	<b>(152)</b>	<b>76</b>	<b>45</b>
Basic EPS	2.7	7.1	8.1	7.8	(25.3)	12.7	7.5
Diluted EPS	2.7	7.1	8.1	7.8	(25.3)	12.7	7.5
DPS	0.7	1.8	1.8	1.8	1.3	1.3	1.8

Source: Research Dynamics, Company data

### Balance Sheet

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	384.1	376.1	366.4	352.6	196.5	228.5	235.9
Intangible assets	4.8	5.8	5.6	5.6	5.8	6.0	6.1
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	0.0	0.0	0.0	0.0	0.0
Other non-current assets	56.4	55.3	54.0	64.8	58.4	58.4	58.4
<b>Total non-current assets</b>	<b>455.3</b>	<b>447.2</b>	<b>436.0</b>	<b>432.9</b>	<b>270.7</b>	<b>302.8</b>	<b>310.4</b>
<b>Current assets</b>							
Inventories	59.2	69.6	78.5	78.3	87.5	102.1	95.8
Trade accounts receivable	77.8	72.1	72.4	52.9	69.3	75.6	70.7
Other receivables	18.0	13.1	14.0	17.2	28.5	28.5	28.5
Prepaid expenses and accrued income	7.0	9.2	8.6	6.7	9.2	9.2	9.2
Short-term financial receivables	0.0	100.3	0.0	0.0	0.1	0.1	0.1
Liquid funds and Securities	80.2	89.0	93.1	116.3	95.1	131.4	149.9
<b>Total assets</b>	<b>697.6</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>560.4</b>	<b>649.7</b>	<b>664.6</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	30.0	12.0	12.0	1.2	1.2	1.2	1.2
Capital reserves	0.8	15.0	4.2	4.2	(0.1)	(0.1)	(0.1)
Profit reserves	346.4	336.2	375.2	418.5	459.5	300.2	365.8
Net result for the year	16.0	42.3	48.3	46.9	(151.6)	76.4	45.0
<b>Non-current liabilities</b>							
Long-term financial liabilities	143.5	120.5	116.8	109.7	106.6	102.7	98.8
Pension scheme liabilities	0.6	1.3	0.7	1.2	1.4	1.4	1.4
Other long-term liabilities	0.0	0.8	0.6	0.4	0.3	0.3	0.3
Long-term provisions	51.8	50.0	47.5	31.5	24.1	24.1	24.1
<b>Current liabilities</b>							
Trade accounts payable	69.5	69.7	66.3	56.8	84.8	109.3	93.9
Other payables	3.3	4.1	3.6	4.6	3.9	3.9	3.9
Accrued liabilities and deferred income	17.2	20.0	16.3	16.8	18.3	18.3	18.3
Short-term financial liabilities	9.8	125.8	5.9	8.1	3.2	3.1	3.0
Short-term provisions	5.6	1.2	3.8	3.3	7.4	7.4	7.4
<b>Total liabilities</b>	<b>301.3</b>	<b>393.3</b>	<b>261.4</b>	<b>232.4</b>	<b>249.9</b>	<b>270.4</b>	<b>251.0</b>
<b>Total equity and liab.</b>	<b>697.6</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>560.4</b>	<b>649.7</b>	<b>664.6</b>

Source: Research Dynamics, Company data

### Cash Flow Statement

CHF mn	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net profit for the period	16.2	42.3	48.5	47.0	(151.4)	76.6	45.1
Non-cash adjustments:	(1.5)	26.3	31.2	(2.2)	169.5	19.4	21.4
<b>Change in CA and CL:</b>							
(Increase)/ decrease in inventories	13.6	(8.6)	(10.2)	(4.1)	(9.6)	(14.5)	6.3
Decrease in trade accounts receivable	(7.7)	5.0	(1.3)	20.5	(15.5)	(6.3)	4.9
Increase/ (decrease) in trade accounts payable	15.8	(1.1)	(2.8)	(9.0)	30.7	24.5	(15.4)
Other changes in working capital	(4.2)	0.4	(4.3)	2.8	(7.9)	0.0	0.0
<b>CFO</b>	<b>32.2</b>	<b>64.3</b>	<b>61.0</b>	<b>55.0</b>	<b>15.8</b>	<b>99.6</b>	<b>62.2</b>
Investments in tangible fixed assets	(32.3)	(22.3)	(21.9)	(17.5)	(23.0)	(50.1)	(27.4)
Disposals of tangible fixed assets	15.4	6.3	0.8	5.2	5.2	0.0	0.0
Investments in intangible assets	(2.4)	(2.2)	(1.0)	(1.3)	(1.6)	(1.5)	(1.5)
Sale of subsidiary/ Divestiture of interests	0.0	0.0	0.0	0.1	0.2	0.0	0.0
Investments in business activities	0.0	(27.9)	0.0	(1.6)	0.0	0.0	0.0
Repayment of long-term financial receivables	0.0	0.0	100.9	(0.3)	(0.1)	0.0	0.0
<b>CFI</b>	<b>(19.3)</b>	<b>(46.0)</b>	<b>78.9</b>	<b>(15.3)</b>	<b>(19.2)</b>	<b>(51.6)</b>	<b>(28.9)</b>
Increase/ (Decrease) in short-term financial liabilities and receivables	1.0	(4.3)	(123.4)	(4.4)	(6.9)	(0.1)	(0.1)
Increase/ (Decrease) in long-term financial liabilities	(0.6)	(3.0)	(1.1)	0.0	0.0	(3.9)	(3.9)
Increase in other long-term liabilities	0.2	2.1	(0.2)	(0.4)	(0.3)	0.0	0.0
Dividends to shareholders	(3.9)	(3.9)	(10.9)	(10.8)	(10.8)	(7.8)	(10.8)
<b>CCF</b>	<b>(3.3)</b>	<b>(9.1)</b>	<b>(135.6)</b>	<b>(15.6)</b>	<b>(18.0)</b>	<b>(11.8)</b>	<b>(14.8)</b>
Exchange (losses)/gains	0.2	(0.3)	(0.2)	(0.9)	0.2	0.0	0.0
<b>Net change in cash</b>	<b>9.8</b>	<b>8.9</b>	<b>4.1</b>	<b>23.2</b>	<b>(21.2)</b>	<b>36.3</b>	<b>18.5</b>
Opening cash balance	70.3	80.1	89.0	93.1	116.3	95.1	131.4
<b>Closing cash balance</b>	<b>80.1</b>	<b>89.0</b>	<b>93.1</b>	<b>116.3</b>	<b>95.1</b>	<b>131.4</b>	<b>149.9</b>

### Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Growth Ratios</b>							
Sales Growth	8%	14%	(2%)	(15%)	12%	42%	(9%)
Chemistry division	9%	5%	(2%)	(6%)	30%	19%	2%
Paper division	7%	14%	(3%)	(29%)	10%	62%	(14%)
Packaging division	9%	17%	0%	6%	5%	29%	(5%)
Operating Profit Growth	(51%)	NM	10%	(56%)	NM	NM	(34%)
Net Income Growth	NM	165%	14%	(3%)	NM	NM	(41%)
<b>Profitability Ratios (%)</b>							
Operating margin	1%	10%	11%	6%	(1%)	12%	9%
Chemistry division	5%	8%	6%	6%	16%	11%	15%
Paper division	(5%)	10%	12%	(1%)	(11%)	14%	5%
Packaging division	7%	10%	11%	13%	3%	9%	10%
EBITDA Margin %	7%	16%	17%	12%	5%	15%	12%
Net Margin (%)	3%	8%	9%	11%	(31%)	11%	7%
<b>Return Ratios</b>							
Profit Margin	3%	8%	9%	11%	(31%)	11%	7%
Asset Turnover	0.7x	0.7x	0.7x	0.6x	0.8x	1.2x	1.0x
Financial Leverage	1.8x	1.9x	1.8x	1.5x	1.6x	1.8x	1.7x
Dupont ROE (%)	4%	11%	11%	10%	(39%)	22%	11%
ROCE (%)	1%	10%	10%	4%	(1%)	17%	11%
ROA (%)	2%	6%	6%	7%	(24%)	13%	7%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.4x	0.6x	0.3x	0.2x	0.4x	0.3x	0.2x
Net Debt - Equity Ratio	0.2x	0.4x	0.1x	0.0x	0.0x	(0.1x)	(0.1x)
Interest Coverage	0.7x	11.8x	9.1x	9.1x	(1.1x)	35.2x	23.9x
<b>Liquidity Ratios</b>							
Current Ratio	2.3x	1.6x	2.8x	3.0x	2.5x	2.4x	2.8x
Quick Ratio	1.7x	1.3x	2.0x	2.2x	1.7x	1.7x	2.0x
<b>Valuation Ratios</b>							
EV/EBITDA	12.5x	5.1x	4.8x	7.6x	16.4x	4.4x	5.9x
P/E	25.4x	9.6x	8.4x	8.6x	NM	5.7x	9.7x

Source: Research Dynamics, Bloomberg, Company data

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