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CPH Chemie + Papier Holding AG

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Event update

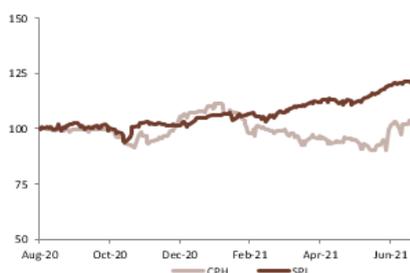
5 July 2021

Company Data

Price:	CHF 68.4
Market Cap:	CHF 410.4mn
Free Float:	39.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	1,375
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

Share Price Development



Source: Bloomberg

Key Financial Data

	2019	2020	2021E	2022E
Sales	524.7	445.2	446.1	473.2
EBITDA %	16.8%	12.4%	8.0%	13.6%
EBIT %	10.8%	5.5%	0.8%	6.8%
Net Margin %	9.2%	10.5%	0.2%	4.6%
Basic EPS	8.06	7.82	0.13	3.65
Diluted EPS	8.06	7.82	0.13	3.65
DPS	1.80	1.80	1.80	1.80
Equity Ratio %	62.6%	66.8%	66.3%	66.8%
Capex	(22.0)	(13.5)	(41.2)	(31.4)
P/Sales	0.8x	0.9x	0.9x	0.9x
P/E	8.7x	8.8x	NM	18.9x
EV/EBITDA	4.8x	7.5x	11.6x	6.5x

Source: Research Dynamics, Company data

Next Events

2021 Half-Year Report (to 30 June)	21 July 2021
Investora Equity Conference in Zurich	15 Sep 2021
ZKB Equity Conference	3/4 Nov 2021

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CPH to undertake expansion at Chemistry division

CPH's Chemistry Division, Zeochem, is set to expand the capacity of two of its molecular sieve product lines to meet the growing demand. The expansion would entail an investment of just over CHF 10mn and will help further consolidate Zeochem's leading technological position in the high-quality molecular sieves market. The expansion of the existing capacities is expected to be completed by mid-2022e.

Expansion in lithium molecular sieves capacity to tap the demand for portable oxygen concentrators

The COVID-19 induced acceleration in respiratory diseases has led to a spike in demand for portable oxygen concentrators. To meet this growing demand, CPH is looking to increase the capacity of lithium molecular sieves at Zeochem's Louisville production plant in the USA. The lithium molecular sieves are used to concentrate medical oxygen and are also required in oxygen production for industrial applications. The total output of the plant will be increased by ~700 tonnes a year by investing into the expansion of additional capacities at the existing facility.

Purmol capacity expansion to tap new and existing growing applications

Purmol, a molecular sieve powder that finds its usage in numerous applications is next on the expansion list. Purmol is useful in preventing bubble formation in polyurethane floor coverings. In addition, Purmol is useful in the new and fast growing area of its application in window technology. Earlier, aluminium spacers were provided together with a molecular sieve in multiple-pane windows to prevent fogging on the panes, now plastic spacers are gaining prominence. Plastic spacer provides better thermal insulation, and the molecular sieve desiccant can be used in powder form into the plastic. The company is looking to increase the annual capacity of Purmol by ~800 tonnes by installing a new calciner at its Zvornik site in Bosnia & Herzegovina.

Investment program

CPH stated that the necessary investments for the two expansion projects are expected to amount to just over CHF 10 million until operations are up and running by mid-2022. Assuming an even split, this adds CHF 5 million for 2H2021E and CHF 5 million for 1H2022E. Our current forecasts are for CAPEX amounts of CHF 40 million and CHF 30 million for this year and next, respectively. Ahead of the half-year 2021E results due 21 July, we are leaving our forecasts unchanged.

Valuation and conclusion

We value CPH using DCF and relative valuation techniques. Our intrinsic value of CHF 91.3 per share, which is similar to our previous target price (CHF 91.3), implying an upside of ~33.5% 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 P/S multiple of 0.9x (FY2021E), a significant 36% discount to the weighted average multiple of division peers.

The global economy is expected to recover gradually from 2021e with the IMF forecasting 6% growth in 2021. While this bodes well for the business in general, in the short-term, we expect the uncertainty to continue. Specifically, the Paper Division is expected to be under pressure due to an unfavourable operating environment. However, the Packaging and Chemical Divisions are expected to be the key beneficiary of a revival in the economic activity and should offset the expected weakness in the Paper Division to some extent. Specifically, we believe the Packaging Division to emerge even stronger in the ongoing economic revival as it has all positive levers in place to capture upcoming opportunities. Equally complimenting it will be the Chemistry division which is expected to benefit from the emerging trends that the company is looking to tap through timely capacity expansion. Operations aside, management's focus on offering sustainable solutions and simplification of the corporate structure should improve investor sentiment going forward. Moreover, we expect the group-level cost optimisation initiatives to offer support to the company's stock price.

Exhibit 1: CPH – Comparison with division peers

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E
CPH Chemie & Paper	5.7x	10.4x	7.0x	0.9x	0.9x	0.8x	10.2x	96.9x	21.4x
Paper peers:									
Holmen	17.8x	16.7x	16.7x	2.8x	3.7x	3.7x	15.2x	28.2x	28.8x
Stora Enso	9.3x	9.0x	8.7x	1.0x	1.4x	1.4x	12.5x	15.0x	14.5x
Altri	8.1x	6.7x	7.6x	1.7x	1.6x	1.6x	14.4x	9.7x	12.8x
Metsa Board	10.6x	7.6x	7.8x	1.2x	1.6x	1.5x	14.4x	12.2x	12.9x
UPM-Kymmene	8.9x	10.5x	10.1x	1.5x	1.9x	1.9x	15.7x	18.1x	18.1x
Norskse Scogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
James Cropper	15.8x	0.6x	NM	1.1x	0.0x	0.0x	35.1x	44.6x	22.3x
OJI Holdings	7.9x	NM	NM	0.4x	0.4x	0.4x	13.1x	7.7x	8.8x
Chemistry peers:									
Honeywell Int.	14.3x	19.1x	17.3x	3.3x	4.4x	4.1x	22.8x	27.6x	24.4x
Clariant	12.3x	NA	NA	1.4x	NA	NA	40.3x	NA	NA
Arkema	6.2x	7.8x	7.6x	0.8x	1.0x	1.0x	14.7x	15.5x	14.3x
WR Grace & Co.	15.3x	11.8x	10.5x	2.2x	2.4x	2.2x	69.1x	18.3x	15.2x
Packaging peers:									
Meadwestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	9.2x	0.1x	0.1x	0.7x	0.0x	0.0x	16.5x	13.1x	12.4x
Gerresheimer	11.6x	12.3x	11.2x	1.7x	2.0x	1.9x	20.7x	21.2x	18.7x
West Pharmaceutical Services	31.6x	34.6x	31.2x	7.2x	10.1x	9.3x	52.1x	51.5x	47.8x
Convertidora Industrial	4.3x	2.9x	2.6x	0.2x	0.2x	0.1x	11.9x	NA	NA
PSB Industries	4.5x	12.1x	7.1x	0.4x	0.7x	0.6x	15.5x	-46.2x	29.9x
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Biccare Ltd	47.6x	NA	NA	0.1x	NA	NA	2.3x	NA	NA
Median	10.6x	9.8x	8.7x	1.2x	1.6x	1.5x	15.5x	16.8x	16.6x
High	47.6x	34.6x	31.2x	7.2x	10.1x	9.3x	69.1x	51.5x	47.8x
Low	4.3x	0.1x	0.1x	0.1x	0.0x	0.0x	2.3x	-46.2x	8.8x
Premium (disc) to peers	(46%)	7%	(19%)	(28%)	(42%)	(45%)	(34%)	477%	29%

Source: Thomson Eikon (as on 2nd July 2021)

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

	EV/EBITDA			P/S			P/E		
	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E	3 year average	CY2021E	CY2022E
Weighted peer multiples	10.2x	9.9x	8.5x	1.1x	1.4x	1.4x	17.4x	16.1x	17.4x
CPH	5.7x	10.4x	7.0x	0.9x	0.9x	0.8x	10.2x	96.9x	21.4x
Premium (disc) to peers	(44%)	5%	(17%)	(20%)	(36%)	(38%)	(41%)	501%	23%

Source: Thomson Eikon (as on 2nd July 2021)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Chemistry sales	69	75	79	78	73	74	78
Paper sales	246	264	301	293	210	209	213
Packaging sales	119	130	153	153	162	164	183
Net Sales	435	470	534	525	445	446	473
Cost of Sales	(267)	(309)	(311)	(298)	(255)	(273)	(279)
Gross profit	168	161	222	227	190	173	194
Personnel cost	(89)	(84)	(92)	(93)	(93)	(95)	(90)
Outsourced maintenance/repairs	(18)	(17)	(19)	(20)	(17)	(18)	(16)
Other operating expense	(25)	(26)	(28)	(26)	(25)	(25)	(24)
Total operating costs	(131)	(127)	(139)	(139)	(135)	(137)	(130)
EBITDA	37	34	83	88	55	36	64
Depreciation	(31)	(30)	(30)	(30)	(29)	(31)	(31)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT) before impairment	6	3	52	57	25	3	32
Impairment	0	0	0	0	0	0	0
Operating profit (EBIT)	6	3	52	57	25	3	32
Finance costs	(6)	(8)	(7)	(6)	(5)	(5)	(3)
Finance income	1	2	1	0	0	0	0
Total financial income (expenses)	(5)	(7)	(6)	(6)	(5)	(5)	(3)
Profit before taxes (before exceptional items)	1	(4)	46	51	20	(1)	29
Non-operating items	(4)	23	0	1	19	4	0
Income taxes	(4)	(3)	(3)	(3)	8	(2)	(7)
Profit attributable to the parent	(8)	16	42	48	47	0.8	22
Basic EPS	(1.3)	2.7	7.1	8.1	7.8	0.1	3.6
Diluted EPS	(1.3)	2.7	7.1	8.1	7.8	0.1	3.6
DPS	0.7	0.7	1.8	1.8	1.8	1.8	1.8

Source: Research Dynamics, Company data

Balance Sheet

CHF mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Assets							
Non-current assets							
PPE	384.6	384.1	376.1	366.4	352.6	357.2	356.7
Intangible assets	3.1	4.8	5.8	5.6	5.6	5.4	5.3
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	52.6	56.4	55.3	54.0	64.8	64.8	64.8
Total non-current assets	450.3	455.3	447.2	436.0	432.9	437.4	436.7
Current assets							
Inventories	68.9	59.2	69.6	78.5	78.3	73.3	78.6
Trade accounts receivable	69.1	77.8	72.1	72.4	52.9	63.6	67.4
Other receivables	8.9	18.0	13.1	14.0	17.2	17.2	17.2
Prepaid expenses and accrued income	4.8	7.0	9.2	8.6	6.7	6.7	6.7
Short-term financial receivables	0.1	0.0	100.3	0.0	0.0	0.0	0.0
Liquid funds and Securities	70.4	80.2	89.0	93.1	116.3	97.0	100.1
Total assets	672.4	697.6	800.5	702.7	704.2	695.1	706.7
Shareholders' Equity and Liabilities							
Share capital	30.0	30.0	12.0	12.0	1.2	1.2	1.2
Capital reserves	4.8	0.8	15.0	4.2	4.2	4.2	4.2
Profit reserves	351.2	346.4	336.2	375.2	418.5	454.6	444.5
Net result for the year	(7.9)	16.0	42.3	48.3	46.9	0.8	21.9
Non-current liabilities							
Long-term financial liabilities	145.6	143.5	120.5	116.8	109.7	106.0	102.3
Pension scheme liabilities	1.1	0.6	1.3	0.7	1.2	1.2	1.2
Other long-term liabilities	0.1	0.0	0.8	0.6	0.4	0.4	0.4
Long-term provisions	52.5	51.8	50.0	47.5	31.5	31.5	31.5
Current liabilities							
Trade accounts payable	53.1	69.5	69.7	66.3	56.8	61.6	66.0
Other payables	8.3	3.3	4.1	3.6	4.6	4.6	4.6
Accrued liabilities and deferred income	16.5	17.2	20.0	16.3	16.8	16.8	16.8
Short-term financial liabilities	7.0	9.8	125.8	5.9	8.1	7.8	7.5
Short-term provisions	7.6	5.6	1.2	3.8	3.3	3.3	3.3
Total liabilities	291.6	301.3	393.3	261.4	232.4	233.2	233.6
Total equity and liab.	672.4	697.6	800.5	702.7	704.2	695.1	706.7

Source: Research Dynamics, Company data

Cash Flow Statement

CHF mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net profit for the period	(7.7)	16.2	42.3	48.5	47.0	0.8	22.0
Non-cash adjustments:	33.9	(1.5)	26.3	31.2	(2.2)	32.3	32.1
Change in CA and CL:							
(Increase)/ decrease in inventories	(13.1)	13.6	(8.6)	(10.2)	(4.1)	5.0	(5.3)
Decrease in trade accounts receivable	(0.5)	(7.7)	5.0	(1.3)	20.5	(10.7)	(3.9)
Increase/ (decrease) in trade accounts payable	1.6	15.8	(1.1)	(2.8)	(9.0)	4.9	4.4
Other changes in working capital	7.7	(4.2)	0.4	(4.3)	2.8	-	-
CFO	21.9	32.2	64.3	61.0	55.0	32.3	49.4
Investments in tangible fixed assets	(20.7)	(32.3)	(22.3)	(21.9)	(17.5)	(40.0)	(30.4)
Disposals of tangible fixed assets	20.5	15.4	6.3	0.8	5.2	-	-
Investments in intangible assets	(1.2)	(2.4)	(2.2)	(1.0)	(1.3)	(1.1)	(1.1)
Investments in business activities	(18.5)	-	(27.9)	-	(1.6)	-	-
Repayment of long-term financial receivables	-	-	-	100.9	(0.3)	-	-
CFI	(19.9)	(19.3)	(46.0)	78.9	(15.3)	(41.2)	(31.4)
Increase/ (Decrease) in short-term financial liabilities and receivables	0.1	1.0	(4.3)	(123.4)	(4.4)	(0.3)	(0.3)
Increase/ (Decrease) in long-term financial liabilities	19.0	(0.6)	(3.0)	(1.1)	-	(3.7)	(3.7)
Increase in other long-term liabilities	(0.4)	0.2	2.1	(0.2)	(0.4)	4.4	-
Dividends to shareholders	(3.6)	(3.9)	(3.9)	(10.9)	(10.8)	(10.8)	(10.8)
CFE	15.2	(3.3)	(9.1)	(135.6)	(15.6)	(10.4)	(14.8)
Exchange (losses)/gains	0.1	0.2	(0.3)	(0.2)	(0.9)	-	-
Net change in cash	17.2	9.8	8.9	4.1	23.2	(19.3)	3.2
Opening cash balance	53.1	70.3	80.1	89.0	93.1	116.3	96.9
Closing cash balance	70.3	80.1	89.0	93.1	116.3	96.9	100.1

Source: Research Dynamics, Company data

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Growth Ratios							
Sales Growth	4%	8%	14%	(2%)	(15%)	0%	6%
Chemistry division	11%	9%	5%	(2%)	(6%)	1%	6%
Paper division	(1%)	7%	14%	(3%)	(29%)	(1%)	2%
Packaging division	9%	9%	17%	0%	6%	1%	12%
Operating Profit Growth	NM	(51%)	NM	10%	(56%)	(86%)	NM
Net Income Growth	NM	NM	165%	14%	(3%)	(98%)	NM
Profitability Ratios (%)							
Operating margin (before impairment) (%)	1%	1%	10%	11%	6%	1%	7%
Chemistry division	2%	5%	8%	6%	6%	7%	7%
Paper division	(2%)	(5%)	10%	12%	(1%)	(9%)	1%
Packaging division	8%	7%	10%	11%	13%	13%	13%
EBITDA Margin %	8%	7%	16%	17%	12%	8%	14%
Net Margin (%)	(2%)	3%	8%	9%	11%	0%	5%
Return Ratios							
Profit Margin	(2%)	3%	8%	9%	11%	0%	5%
Asset Turnover	0.7x	0.7x	0.7x	0.7x	0.6x	0.6x	0.7x
Financial Leverage	1.7x	1.8x	1.9x	1.8x	1.5x	1.5x	1.5x
Dupont ROE (%)	(2%)	4%	11%	11%	10%	0%	5%
ROCE (%)	1%	1%	10%	10%	4%	1%	6%
ROA (%)	(1%)	2%	6%	6%	7%	0%	3%
Leverage Ratios							
Debt - Equity Ratio	0.4x	0.4x	0.6x	0.3x	0.2x	0.2x	0.2x
Net Debt - Equity Ratio	0.2x	0.2x	0.4x	0.1x	0.0x	0.0x	0.0x
Interest Coverage	1.4x	0.7x	11.8x	9.1x	9.1x	0.7x	9.5x
Liquidity Ratios							
Current Ratio	2.4x	2.3x	1.6x	2.8x	3.0x	2.7x	2.7x
Quick Ratio	1.7x	1.7x	1.3x	2.0x	2.2x	2.0x	1.9x
Valuation Ratios							
EV/EBITDA	11.4x	12.5x	5.1x	4.7x	7.5x	11.6x	6.5x
P/E	NM	26.3x	9.9x	8.5x	8.8x	NM	18.9x

Source: Research Dynamics, Bloomberg, Company data

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