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CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

2021 Investor Day update

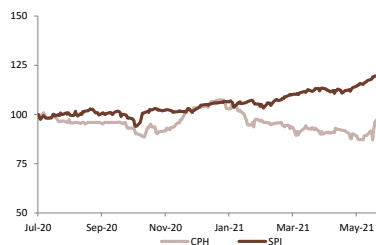
18 June 2021

Company Data

Price:	CHF 69.40
Market Cap:	CHF 416.4mn
Free Float:	39.7%
No. of shares:	6.0mn
Avg. traded volume (30 day):	991
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	9.0x	NM	19.2x
EV/EBITDA	4.8x	7.6x	11.7x	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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Packaging division at the forefront of the way forward

CPH hosted its annual investor day event on 14 June 2021 where CPH highlighted its continued focus on implementing differentiation strategy in its Chemistry and Packaging Division, while pursuing the cost leadership strategy in the Paper Division to mitigate an unfavourable operating environment. The focus was on the Packaging Division, which the company believes will be a major growth driver in the future due to highly favourable end markets and division's differentiated offerings. Further, the group remains focused on implementing strategic measures such as expanding footprint outside Europe, reducing dependency on the Paper Division and trimming down the exposure to the Swiss franc in currency terms to mitigate the ongoing headwinds.

Packaging Division to provide the next leg of growth

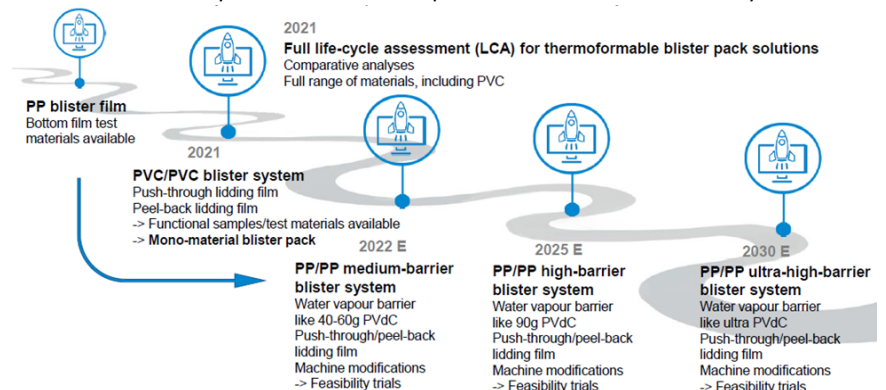
Strategy enabled growth: The Packaging Division's net sales have registered a CAGR of 8% since 2015, whereas EBIT margins expanding 800bps over the same period (2020: 13.3% vs. 2015: 5.3%). The double-digit margin in the Packaging division is attributable to the continued and 100% focus on the pharmaceutical market and on packaging films with the high barrier properties, expansion of the product range to higher-value and high-barrier films and other cost efficiency measures.

Long-term drivers in place for further lift: The global pharmaceutical market is expected to register a CAGR of 3%-6% during 2020-25e, with emerging economies clocking a much higher growth of 7%-10% (CAGR). Such growth will be driven by megatrends such as the ageing global population, urbanization, civilization, lifestyle diseases, and improved medical and medicinal care.

Levers identified for further expansion: The division's primary focus, i.e. 90% of the pharmaceutical offerings, is on the primary pharma packaging (blister packs, solid dosage forms), while 10% is on special applications (ampoule packagings, syringe packagings, medical devices). The demand for blister packaging is expected to clock a CAGR of >4%-7% during 2018-23e, whereas the demand for PVC monofilms grows at 3% to 5%, the higher margin coated PVdC barrier films grows at 7% to 9% during the same period. In line with the growing and emerging trends, the company is studying the expansion possibilities into new products and markets. The blister packs, which are used as barriers, can also be used as protectors from contamination and/or for transport, thus have the potential to become an incremental addressable market for the company. Similarly, the company exploring way to become a packaging specialist for primary pharmaceutical packaging such as containers, bottles, ampoules, syringes, etc. made of plastic, or other materials such as glass, metal or paper for the pharmaceutical market.

Well established network supported by state-of-the-art operations: CPH already has an operational presence in four out of the top five future pharma markets globally (in 2025e). The company has a direct sales presence in 85 countries and operates via local agents in >40 countries. It has state-of-the-art operations with five production sites spread across four continents. Of the five, the one in Brazil is expected to commence operations in 2Q22. The company is also at the forefront of innovation and has developed more than 10 innovative products since 1970. With such operational strength and a wide reach, the company stands to benefit from the ongoing development in the pharmaceutical market.

Growth to be balanced by sustainable approach: The Packaging division expects its mon-material blister systems to meet the requirements of the circular economy.



Reaping benefits from the successful implementation of the long-term strategy

Reduce dependency on the Paper Division: Long term structural headwinds, commoditized nature of the business, geographical barriers and high fixed costs have forced CPH to reduce its exposure to the Paper Division by focusing on the more profitable Chemistry and Packaging Divisions (2020: 53% share of total net sales vs. 2013: 36%). The shift in focus along with consistent execution of cost reduction programs in the Paper Division has resulted in delivering substantial improvement in the group's EBIT with no operating loss since 2016.

Increasing sales proportion from outside Europe: CPH has been reducing its concentration in Europe by expanding in high growth regions (2020: 27% of net sales were made from outside Europe vs. 2003: 16%). In the last 7 years, CPH established 13 own production sites in 4 continents. In the Chemical Division, the company is internationalizing its operations by strengthening and establishing its distribution in Latin America, Middle East, and Asia regions and establishing production in growth markets with lower cost structures.

Limiting currency volatility: The volatility in the Swiss Franc has been affecting the company's profitability. During 2009-15, the appreciation in the Swiss Franc impacted the group's EBITDA/EBIT by ~-CHF 90mn/ year. To mitigate this, the company has been expanding production capacities outside Switzerland. Accordingly, the proportion of costs incurred in Swiss Francs has come down to 38% in FY20 (FY13: 70%). In absence of such measures, the cost impact would have been even higher.

Outlook

Paper: The excess capacity along with declining demand for newspaper and magazine paper due to the growing importance of digital channels has impacted realization (almost halved over 2009-20) significantly. The company in recent times has taken price hikes (effective from July; +~18% increase against last year's average market price) due to slight improvement in newspaper demand, but that is predominantly due to a sharp jump in raw material prices, i.e. recovered paper and pulp, thus thwarting any scope of margin improvement.

The pandemic has accelerated the capacity closures in paper, thereby minimizing the impact of a supply glut in the medium term. Thus, despite the pressure on margins, the medium-term outlook in the paper sector remains favorable.

Chemistry: The business trends in the Chemistry Division are linked with the size and pace of global economic growth. CPH continues its pursuit of internationalizing its Chemical Division. In addition, the company continues to focus on high growth products/markets such as healthcare, pharma, electronics, etc. Further, widening of the product range for higher-value products and cost efficiency measures (productivity improvement, process enhancement, etc.) continue to support margin improvement.

Packaging: CPH is also internationalizing its Packaging business by developing international distribution channels and building the coating plants in Asia (China) and Latin America (Brazil). The continued focus on the pharmaceutical market and higher margin films are benefiting the company as it is achieving double-digit EBIT margins in its blister packaging business. Further, the focus on core competence in all capacity expansion projects, expansion of product range into higher-value and high-barrier films (Ultra Protect, Tristar Ultra, etc.), and cost-efficiency measures to continue contributing to improving the company's profitability.

Other Highlights

Dividend Policy: CPH has been following a progressive dividend policy over the years to reward its shareholders. The company follows a policy of distributing 25%-50% in dividends of the net result by keeping liquidity and FCF in mind. The dividend yield has also grown up in the last 4 years and after distributing CHF 10.8 mn in FY20.

Merger with Uetikon Industrieholding approved: The Extraordinary General Meeting held on 4 June 2021, approved CPH's merger with Uetikon Industrieholding AG. Uetikon, which belongs to the group's founding family members, held ~50% share in CPH. The transaction entailed Uetikon shareholders to exchange their shares for a commensurate number of CPH shares. After the merger, Uetikon shareholders now have become direct shareholders of CPH and the largest representatives of the founding members, i.e. Swiss Industrial Finance AG and the Ella Schnorf Estate, now hold just under one-third of CPH's shares. As a part of the transaction, UVB Immobilien Treuhand Perlen AG, which manages CPH Group's non-operating real estate assets, will be transferred to CPH. The transaction is expected to result in an increase in the free float of CPH shares to 67.57%. We believe that the increased free float should improve the shares' liquidity and should be viewed

favourably by investors. Hence, in our view, the attractiveness of CPH's shares is likely to enhance going forward.

Mid-Term Financial Targets: Notwithstanding short-term cautious outlook, management confirmed the following mid-term financial targets:

- Organic net sales growth of >3% per annum
- EBITDA Margin >12%
- Equity ratio >50%
- Liquidity of at-least CHF 30-50mn
- Operating investment of CHF20-25mn per annum

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 ~32% 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 unfavorable operating environment. However, the Packaging and Chemical Divisions are expected to be the key beneficiary of a revival in 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. Operations aside, management's focus on offering sustainable solutions and the simplification of the corporate structure should improve investor sentiment going forward. We remain encouraged by management's commentaries, which did not include any changes to the mid-to-long-term goals. Moreover, we expect the group-level cost optimization 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	5.9x	10.5x	7.1x	0.9x	0.9x	0.9x	10.7x	97.5x	21.4x
Paper peers:									
Holmen	NA	16.4x	16.3x	NA	3.6x	3.6x	NA	27.6x	27.9x
Stora Enso	9.3x	8.8x	8.4x	1.0x	1.3x	1.3x	12.4x	14.7x	14.0x
Altri	8.0x	7.1x	7.0x	1.7x	1.6x	1.5x	14.1x	11.2x	10.6x
Metsa Board	10.7x	7.6x	7.9x	1.2x	1.6x	1.5x	14.5x	12.1x	13.0x
UPM-Kymmene	8.8x	10.5x	10.0x	1.5x	1.9x	1.8x	15.4x	18.2x	17.9x
Norkse Scogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
James Cropper	15.6x	0.1x	0.1x	1.1x	0.0x	0.0x	34.4x	52.2x	24.3x
OJI Holdings	7.9x	NM	NM	0.4x	0.5x	0.4x	13.0x	7.8x	9.0x
Chemistry peers:									
Honeywell Int.	14.1x	18.7x	17.0x	3.3x	4.3x	4.0x	22.6x	27.0x	23.8x
Clariant	12.2x	NA	NA	1.5x	NA	NA	40.8x	NA	NA
Arkema	6.2x	7.8x	7.7x	0.8x	1.0x	1.0x	14.5x	15.7x	14.3x
WR Grace & Co.	15.2x	11.8x	10.6x	2.2x	2.4x	2.2x	65.9x	18.2x	15.2x
Packaging peers:									
Meadwestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	9.3x	0.1x	0.1x	0.7x	0.0x	0.0x	16.6x	13.3x	12.6x
Gerresheimer	11.5x	12.2x	11.2x	1.7x	2.0x	1.9x	20.4x	21.0x	18.5x
West Pharmaceutical Services	31.3x	33.4x	30.2x	7.1x	9.7x	9.0x	51.5x	49.7x	45.8x
Convertidora Industrial	4.3x	2.9x	2.6x	0.2x	0.2x	0.1x	12.3x	NA	NA
PSB Industries	4.6x	12.1x	7.1x	0.4x	0.7x	0.6x	16.0x	-46.2x	NA
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	47.9x	NA	NA	0.1x	NA	NA	2.2x	NA	NA
Median	10.0x	9.7x	8.1x	1.2x	1.6x	1.5x	15.7x	17.0x	15.2x
High	47.9x	33.4x	30.2x	7.1x	9.7x	9.0x	65.9x	52.2x	45.8x
Low	4.3x	0.1x	0.1x	0.1x	0.0x	0.0x	2.2x	-46.2x	9.0x
Premium (disc) to peers	(41%)	8%	(13%)	(25%)	(41%)	(43%)	(32%)	475%	41%

Source: Thomson Eikon (as on 17 June 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	10.1x	9.9x	8.2x	1.1x	1.4x	1.4x	17.5x	15.9x	15.5x
CPH	5.9x	10.5x	7.1x	0.9x	0.9x	0.9x	10.7x	97.5x	21.4x
Premium (disc) to peers	(41%)	6%	(13%)	(18%)	(35%)	(36%)	NM	512%	38%

Source: Thomson Eikon (as on 17 June 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)
CCF	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	11.3x	12.4x	5.0x	4.8x	7.6x	11.7x	6.5x
P/E	NM	26.3x	9.9x	8.7x	9.0x	NM	19.2x

Source: Research Dynamics, Bloomberg, Company data

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