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# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## 1H21 Result update

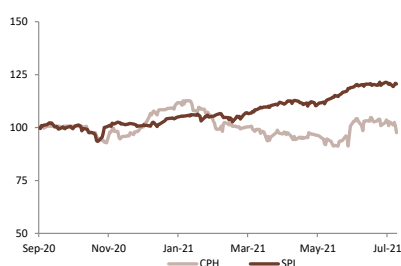
23 July 2021

### Company Data

Price:	CHF 65.00
Market Cap:	CHF 390.0mn
Free Float:	67.6%
No. of shares:	6.0mn
Avg. traded volume (30 day):	951
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	485.6	514.6
EBITDA %	16.8%	12.4%	7.4%	12.5%
EBIT %	10.8%	5.5%	0.7%	6.2%
Net Margin %	9.2%	10.5%	0.2%	4.2%
Basic EPS	8.06	7.82	0.13	3.63
Diluted EPS	8.06	7.82	0.13	3.63
DPS	1.80	1.80	1.80	1.80
Equity Ratio %	62.6%	66.8%	65.5%	66.1%
Capex	(22.0)	(13.5)	(46.4)	(36.2)
P/Sales	0.8x	0.9x	0.9x	0.8x
P/E	8.7x	8.8x	NM	18.9x
EV/EBITDA	4.8x	7.5x	11.0x	6.5x

Source: Research Dynamics, Company data

### Next Events

Investora Equity Conference in Zurich	15 Sep 2021
ZKB Equity Conference	3/4 Nov 2021

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## Capex plans in place to tap emerging opportunities

### Chemistry and Packaging divisions continue to perform well

CPH reported 5.1% YoY growth (+5.7% excluding currency impact) in net sales to CHF 243.7mn. The Chemistry and the Packaging Divisions continue to perform well and offset the weak performance in the Paper Division. The group EBITDA declined by 40.4% YoY to CHF 20mn largely due to a significant drop in the EBITDA of the Paper division. Group EBITDA margin declined 630bps to 8.2%. Group EBIT declined by 67.8% YoY to CHF 5.7mn (1H20: CHF 17.8mn) and the corresponding margin compressed to 2.4% (1H20: 7.7%). On account of significant margin pressure, the net profit attributable to shareholders declined by 78.3% to CHF 5.8mn.

### Segmental performance

**Paper:** Net sales declined 3.2% YoY (excluding currency: -3.1%) to CHF 105.4mn. The division's 1H21 sales volume was higher as compared to 1H20 when the machines were kept idle due to the imposition of lockdown measures. However, persisting over capacities dragged the paper prices lower, thereby pressuring the realizations and effectively net sales. Consequently, the division's EBITDA loss came in at CHF 1.5mn (CHF 12.5mn), whereas EBIT came down to a negative CHF 10.1mn (CHF 2.3mn). While the end-user demand recovered, the sharp jump in the recovered paper prices to their historical highs has had an adverse impact on raw material cost. Consequently, EBIT declined significantly, despite optimization and cost-saving initiatives.

**Packaging:** Net sales improved 4.7% YoY (excluding currency: +3.8%) to CHF 90.8mn (1H20: CHF 86.7mn). Demand for packaging material suffered slightly compared to 1H20 due to the absence of the usual seasonal flu, which resulted in lower demand for medicines and effectively packaging products from pharmaceutical companies. The division reported lower volume in Europe and North America, however, it was more than offset by double-digit growth in LATAM and Asia. EBITDA declined 28.4% YoY to CHF 11.5mn, and margins compressed by ~600bps to 12.7%. EBIT dropped by 35.5% to CHF 8.4mn and the margin contracted by 570bps YoY to 9.3%. Higher raw material and transportation costs and the delay in passing on the costs resulted in lower profitability.

**Chemistry:** Net sales increased 31.1% YoY (excluding currency impact: +36.7%) to CHF 47.5mn due to improvement in demand. The growth was aided by a surge in the demand for molecular sieves, in which the company has developed a leading position through its innovative offerings. The molecular sieve powders (above all medical oxygen) also showed encouraging trends, while the demand from the energy industry has yet to pick up to pre-pandemic levels. EBITDA went up ~100% to CHF 9.8mn (CHF 4.9mn) and EBIT to CHF 7.4mn (CHF 2.5). Both EBITDA and EBIT margins improved 700bps and 870bps to 20.8% and 15.7%, respectively.

### Cautious outlook for 2021

The world economy is expected to rebound in 2021, however, the economic revival may have a varying degree of impact on each division, and specifically, the demand-supply equation should dictate the fortunes in our view. The management too has provided a cautious outlook for FY2021e that primarily reflects challenges surrounding the Paper Division.

**Paper:** With the closure of 3.3mn tons of graphic printing paper capacity over 2020-21, the paper prices may inch up in 2H21. However, this will not be sufficient to offset the elevated raw material prices. Accordingly, for FY2021 the division's net sales are expected to be slightly higher than the 2020 level, but EBIT is expected to be negative.

**Packaging:** In response to the jump in raw material prices, the company will be gradually adjusting the product prices up. The company is also looking at expanding its product offerings in the overseas market and setting up a new coating plant in Brazil, which is expected to be commissioned in 2Q22. For FY2021, the company expects the division's net sales to be slightly above and EBIT margin below its 2020 levels.

**Chemistry:** The company expects the size and pace of the global economic growth to dictate the business trends in the Chemistry Division. The division is expected to clock higher net sales and double-digit EBIT margin.

**Group:** Group net sales are expected to increase as a whole, while EBIT is expected to be substantially below at single-digit figure. However, the group results are expected to come slightly positive.

### Other Highlights

**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.

**Sustainability offerings:** The Paper Division is at the forefront of offering sustainable products. The division is gradually reducing the use of fossil fuel and was able to cut CO<sub>2</sub> emissions by ~90% over 2013-2020. By 2021, it will be the first company globally to offer carbon-neutral paper. This is expected to be a key differentiating factor in driving the demand for its paper products in the medium-to-long term for the company.

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

- Organic net sales growth of >3% per annum
- EBITDA Margin >12% (from >10% previously)
- 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 ~40% 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 0.8x (FY2022E), a significant 43% 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 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 simplifying the corporate structure should improve investor sentiment going forward. Moreover, we expect the 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	5.5x	10.3x	6.7x	0.9x	0.8x	0.8x	9.9x	118.6x	19.9x
<b>Paper peers:</b>									
Holmen	17.9x	17.9x	18.0x	2.8x	4.0x	3.9x	15.5x	30.7x	31.4x
Stora Enso	9.4x	8.7x	8.5x	1.0x	1.4x	1.4x	12.6x	13.5x	14.4x
Altri	8.1x	6.2x	6.5x	1.6x	1.4x	1.4x	14.3x	8.8x	9.5x
Metsa Board	10.6x	8.0x	8.3x	1.2x	1.7x	1.6x	14.4x	12.6x	13.8x
UPM-Kymmene	8.9x	11.2x	10.8x	1.5x	2.0x	1.9x	15.9x	18.4x	18.7x
Norskse Scogindustrier	NA	NA	NA	NA	NA	NA	NA	NA	NA
James Cropper	15.9x	0.2x	0.2x	1.1x	0.0x	0.0x	36.0x	48.3x	24.1x
OJI Holdings	7.9x	NM	NM	0.4x	0.4x	0.4x	13.0x	7.7x	8.6x
<b>Chemistry peers:</b>									
Honeywell Int.	14.4x	20.1x	18.1x	3.3x	4.6x	4.3x	23.0x	29.0x	25.5x
Clariant	12.3x	NA	NA	1.4x	NA	NA	41.2x	NA	NA
Arkema	6.2x	7.3x	7.2x	0.8x	0.9x	0.9x	14.9x	14.2x	13.2x
WR Grace & Co.	15.4x	11.9x	10.6x	2.2x	2.4x	2.3x	71.9x	18.4x	15.2x
<b>Packaging peers:</b>									
Meadwestwaco	NA	NA	NA	NA	NA	NA	NA	NA	NA
MacFarlane Group	9.1x	0.1x	0.1x	0.7x	0.0x	0.0x	16.5x	12.5x	11.8x
Gerresheimer	11.6x	11.8x	10.7x	1.7x	1.8x	1.7x	20.8x	19.4x	16.9x
West Pharmaceutical Services	32.0x	35.4x	31.9x	7.3x	10.3x	9.5x	52.6x	52.7x	48.9x
Convertidora Industrial	4.3x	2.9x	2.6x	0.2x	0.2x	0.1x	11.5x	NA	NA
PSB Industries	4.5x	NA	NA	0.4x	NA	NA	15.0x	NA	NA
Astrapak Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Bilcare Ltd	47.5x	NA	NA	0.1x	NA	NA	2.3x	NA	NA
Median	10.6x	8.7x	8.5x	1.2x	1.5x	1.5x	15.5x	18.4x	15.2x
High	47.5x	35.4x	31.9x	7.3x	10.3x	9.5x	71.9x	52.7x	48.9x
Low	4.3x	0.1x	0.1x	0.1x	0.0x	0.0x	2.3x	7.7x	8.6x
Premium (disc) to peers	(48%)	19%	(21%)	(28%)	(45%)	(48%)	(36%)	546%	31%

Source: Thomson Eikon (as on 22nd 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	10.3x	8.6x	8.2x	1.1x	1.4x	1.4x	17.4x	16.0x	15.2x
CPH	5.5x	10.3x	6.7x	0.9x	0.8x	0.8x	9.9x	118.6x	19.9x
Premium (disc) to peers	(46%)	21%	(18%)	(21%)	(41%)	(43%)	(43%)	643%	30%

Source: Thomson Eikon (as on 22nd 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	85	90
Paper sales	246	264	301	293	210	225	240
Packaging sales	119	130	153	153	162	175	185
<b>Net Sales</b>	<b>435</b>	<b>470</b>	<b>534</b>	<b>525</b>	<b>445</b>	<b>486</b>	<b>515</b>
Cost of Sales	(267)	(309)	(311)	(298)	(255)	(313)	(310)
<b>Gross profit</b>	<b>168</b>	<b>161</b>	<b>222</b>	<b>227</b>	<b>190</b>	<b>173</b>	<b>205</b>
Personnel cost	(89)	(84)	(92)	(93)	(93)	(94)	(95)
Outsourced maintenance/repairs	(18)	(17)	(19)	(20)	(17)	(18)	(19)
Other operating expense	(25)	(26)	(28)	(26)	(25)	(25)	(26)
<b>Total operating costs</b>	<b>(131)</b>	<b>(127)</b>	<b>(139)</b>	<b>(139)</b>	<b>(135)</b>	<b>(137)</b>	<b>(140)</b>
<b>EBITDA</b>	<b>37</b>	<b>34</b>	<b>83</b>	<b>88</b>	<b>55</b>	<b>36</b>	<b>64</b>
Depreciation	(31)	(30)	(30)	(30)	(29)	(31)	(31)
Amortisation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>6</b>	<b>3</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>3</b>	<b>32</b>
Impairment	0	0	0	0	0	0	0
<b>Operating profit (EBIT)</b>	<b>6</b>	<b>3</b>	<b>52</b>	<b>57</b>	<b>25</b>	<b>3</b>	<b>32</b>
Finance costs	(6)	(8)	(7)	(6)	(5)	(5)	(3)
Finance income	1	2	1	0	0	0	0
<b>Total financial income (expenses)</b>	<b>(5)</b>	<b>(7)</b>	<b>(6)</b>	<b>(6)</b>	<b>(5)</b>	<b>(5)</b>	<b>(3)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>1</b>	<b>(4)</b>	<b>46</b>	<b>51</b>	<b>20</b>	<b>(1)</b>	<b>29</b>
Non-operating items	(4)	23	0	1	19	4	0
Income taxes	(4)	(3)	(3)	(3)	8	(2)	(7)
<b>Profit attributable to the parent</b>	<b>(8)</b>	<b>16</b>	<b>42</b>	<b>48</b>	<b>47</b>	<b>0.8</b>	<b>22</b>
<b>Basic EPS</b>	<b>(1.3)</b>	<b>2.7</b>	<b>7.1</b>	<b>8.1</b>	<b>7.8</b>	<b>0.1</b>	<b>3.6</b>
<b>Diluted EPS</b>	<b>(1.3)</b>	<b>2.7</b>	<b>7.1</b>	<b>8.1</b>	<b>7.8</b>	<b>0.1</b>	<b>3.6</b>
<b>DPS</b>	<b>0.7</b>	<b>0.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>1.8</b>

Source: Research Dynamics, Company data

### Balance Sheet

CHF mn	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	384.6	384.1	376.1	366.4	352.6	362.4	366.6
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
<b>Total non-current assets</b>	<b>450.3</b>	<b>455.3</b>	<b>447.2</b>	<b>436.0</b>	<b>432.9</b>	<b>442.6</b>	<b>446.6</b>
<b>Current assets</b>							
Inventories	68.9	59.2	69.6	78.5	78.3	83.2	83.3
Trade accounts receivable	69.1	77.8	72.1	72.4	52.9	59.9	63.4
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	93.9	96.2
<b>Total assets</b>	<b>672.4</b>	<b>697.6</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>703.4</b>	<b>713.5</b>
<b>Shareholders' Equity and Liabilities</b>							
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	21.8
<b>Non-current liabilities</b>							
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
<b>Current liabilities</b>							
Trade accounts payable	53.1	69.5	69.7	66.3	56.8	69.9	72.9
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
<b>Total liabilities</b>	<b>291.6</b>	<b>301.3</b>	<b>393.3</b>	<b>261.4</b>	<b>232.4</b>	<b>241.5</b>	<b>240.5</b>
<b>Total equity and liab.</b>	<b>672.4</b>	<b>697.6</b>	<b>800.5</b>	<b>702.7</b>	<b>704.2</b>	<b>703.4</b>	<b>713.5</b>

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
<b>Change in CA and CL:</b>							
(Increase)/ decrease in inventories	(13.1)	13.6	(8.6)	(10.2)	(4.1)	(4.8)	(0.2)
Decrease in trade accounts receivable	(0.5)	(7.7)	5.0	(1.3)	20.5	(7.0)	(3.6)
Increase/ (decrease) in trade accounts payable	1.6	15.8	(1.1)	(2.8)	(9.0)	13.1	3.1
Other changes in working capital	7.7	(4.2)	0.4	(4.3)	2.8	-	-
<b>CFO</b>	<b>21.9</b>	<b>32.2</b>	<b>64.3</b>	<b>61.0</b>	<b>55.0</b>	<b>34.4</b>	<b>53.4</b>
Investments in tangible fixed assets	(20.7)	(32.3)	(22.3)	(21.9)	(17.5)	(45.3)	(35.2)
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)	-	-
<b>CFI</b>	<b>(19.9)</b>	<b>(19.3)</b>	<b>(46.0)</b>	<b>78.9</b>	<b>(15.3)</b>	<b>(46.4)</b>	<b>(36.2)</b>
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)
<b>CFB</b>	<b>15.2</b>	<b>(3.3)</b>	<b>(9.1)</b>	<b>(135.6)</b>	<b>(15.6)</b>	<b>(10.4)</b>	<b>(14.8)</b>
Exchange (losses)/gains	0.1	0.2	(0.3)	(0.2)	(0.9)	-	-
<b>Net change in cash</b>	<b>17.2</b>	<b>9.8</b>	<b>8.9</b>	<b>4.1</b>	<b>23.2</b>	<b>(22.4)</b>	<b>2.4</b>
Opening cash balance	53.1	70.3	80.1	89.0	93.1	116.3	93.8
<b>Closing cash balance</b>	<b>70.3</b>	<b>80.1</b>	<b>89.0</b>	<b>93.1</b>	<b>116.3</b>	<b>93.8</b>	<b>96.2</b>

Source: Research Dynamics, Company data

### Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Growth Ratios</b>							
Sales Growth	4%	8%	14%	(2%)	(15%)	9%	6%
Chemistry division	11%	9%	5%	(2%)	(6%)	16%	6%
Paper division	(1%)	7%	14%	(3%)	(29%)	8%	7%
Packaging division	9%	9%	17%	0%	6%	8%	6%
Operating Profit Growth	NM	(51%)	NM	10%	(56%)	(86%)	838%
Net Income Growth	NM	NM	165%	14%	(3%)	(98%)	NM
<b>Profitability Ratios (%)</b>							
Operating margin	1%	1%	10%	11%	6%	1%	6%
Chemistry division	2%	5%	8%	6%	6%	13%	13%
Paper division	(2%)	(5%)	10%	12%	(1%)	(12%)	1%
Packaging division	8%	7%	10%	11%	13%	10%	11%
EBITDA Margin %	8%	7%	16%	17%	12%	7%	13%
Net Margin (%)	(2%)	3%	8%	9%	11%	0%	4%
<b>Return Ratios</b>							
Profit Margin	(2%)	3%	8%	9%	11%	0%	4%
Asset Turnover	0.7x	0.7x	0.7x	0.7x	0.6x	0.7x	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%
<b>Leverage Ratios</b>							
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
<b>Liquidity Ratios</b>							
Current Ratio	2.4x	2.3x	1.6x	2.8x	3.0x	2.5x	2.5x
Quick Ratio	1.7x	1.7x	1.3x	2.0x	2.2x	1.7x	1.7x
<b>Valuation Ratios</b>							
EV/EBITDA	10.6x	11.6x	4.7x	4.5x	7.1x	11.0x	6.1x
P/E	NM	24.4x	9.2x	8.1x	8.3x	507.8x	17.9x

Source: Research Dynamics, Bloomberg, Company data

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