

# CPH Chemie + Papier Holding AG

Switzerland | Industrial Goods & Services

## FY2017 earnings update

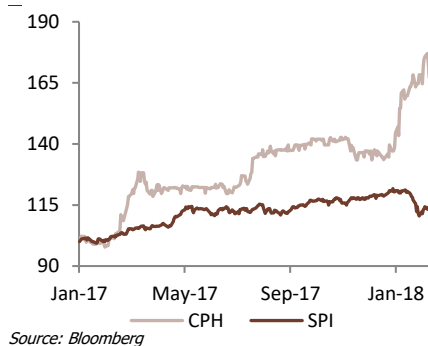
26 February 2018

### Company Data

Price:	CHF 68.5
Market Cap:	CHF 411mn
Free Float:	41.7%
No. of shares:	6.0mn
Avg. traded volume (1 year):	1,374
Bloomberg:	CPHN SW
Reuters:	CPHN-EB
ISIN:	CH0001624714

Source: SIX Swiss Exchange and Bloomberg

### Share Price Development



Source: Bloomberg

### Key Financial Data

	2016	2017	2018E	2019E
Sales	434.8	469.8	487.8	498.3
EBITDA %	8.5%	7.2%	9.5%	9.9%
EBIT %	1.4%	0.6%	3.1%	3.8%
Net Margin %	(1.8%)	3.4%	1.5%	2.1%
Basic EPS	(1.32)	2.66	1.23	1.77
Diluted EPS	(1.32)	2.66	1.23	1.77
DPS	0.65	0.65	0.62	0.89
Equity Ratio %	56.2%	56.4%	55.8%	57.9%
Capex	(1.5)	(19.3)	(21.6)	(22.5)
P/Sales	0.9x	0.9x	0.8x	0.8x
P/E	NM	25.7x	55.5x	38.6x
EV/EBITDA	12.8x	14.0x	10.2x	9.5x

### Next Events

AGM	14 March 2018
200 years Celebration	26 May 2018

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## The fruits of execution are coming through

CPH Chemie + Papier Holding AG (CPH/the group) is an international company, which develops, manufactures and distributes chemical products, wood-based paper, and pharmaceutical packaging films. CPH operates through three segments: Paper, Packaging and Chemistry, with presence across Europe, the Americas and Asia. The Paper division has been the largest contributor to revenues for CPH with close to 56% of total revenues generated in 2017, followed by Packaging with 28% and Chemistry with 16% revenue contribution. Europe is CPH's largest market for its products followed by the Americas. In 2017, CPH's net sales stood at CHF 469.8mn with an employee headcount of 1,019.

### 2017: Revenue growth across segments

CPH Group's revenues for the full year increased by 8.0% y/y (organically 6.5%) to CHF 469.8mn in 2017, which were ahead of our expectations, driven largely by higher sales across all divisions. Gross profit, however, declined to CHF 161.1 (-4.2% y/y), adversely impacted by substantial rise in prices of recovered paper. The company continued its efforts to enhance its efficiencies to counter the adverse trend of rising prices of key raw materials across segments. Operating profit halved at CHF 2.9mn, as compared to CHF 5.9mn in 2016, even as total operating costs declined to CHF 127.4mn (-3.0% y/y). Net profit of CHF 16.2mn was positively impacted by extraordinary income of CHF 22.8mn arising from the sale of real-estate in Perlen and Full-Reuenthal during the year. Tax expense of CHF 3.0mn (vs. CHF 4.3mn) in 2017 declined as the company benefited from tax-loss carry forwards of prior years. Encouragingly, the Packaging segment reported 9.2% y/y growth in revenues to CHF 130.2mn, while operating profit stood at CHF 9.6mn, up 6.1% y/y due to increase in volumes and strong sales in the higher-barrier films. Revenues from the Chemistry segment rose by 8.8% y/y to CHF 75.5mn, largely attributable to organic growth, while EBIT more than doubled to CHF 3.8mn compared to CHF 1.6mn in 2016. The Paper division grew on the back of higher volumes (+8%) despite of headwinds pertaining to significant oversupply and reduction in overall demand for the final products. Sales increased by 7.3%. Still, the division reported a negative EBIT of CHF 12.3mn.

### Internationalization and cost efficiencies, the key to growth

In 2017, the company implemented number of strategic decisions which had been initiated in prior years. In our opinion, the corresponding steps transform the company into a leaner and fitter organization to further pursue its goals of becoming a more internationalized and diversified Industrial Goods company. Full integration of its China-based Chemicals' (ALSIO) and Packaging plants have allowed the company to transfer significant parts of its operations to China, thereby achieving lower costs and freeing other facilities to produce higher-value products to further boost its prospects. This is not only going to help the company to reduce its operating costs but also to increasingly realign the cost base with that of the revenues. The relocation of production from a further part of the Uetikon site's production to the facility in Zvornik in Bosnia & Herzegovina as well as to Rüti within the Canton Zurich, including management, should also lead to a further increase in profitability in the medium term.

### Chemistry and Packaging divisions to offset Paper underperformance

CPH continued its efforts to grow its Chemistry and Packaging divisions, in a bid to reduce its dependence on the Paper division, evidenced by acquisitions such as ALSIO, Armar and Sekoya in the recent past. While these acquisitions should help CPH to expand its footprint outside Europe, they will also aid drive cost efficiencies in the medium to longer term. We expect the Paper division to remain stable with marginally breaking even in 2018; against this, the Packaging and Chemistry divisions should be able to achieve mid- to high single-digit growth with better margins compared to 2017. On the EBIT level, we expect CHF 10.4mn from Packaging, CHF 4.6mn from Chemistry and CHF 0.3mn from Paper.

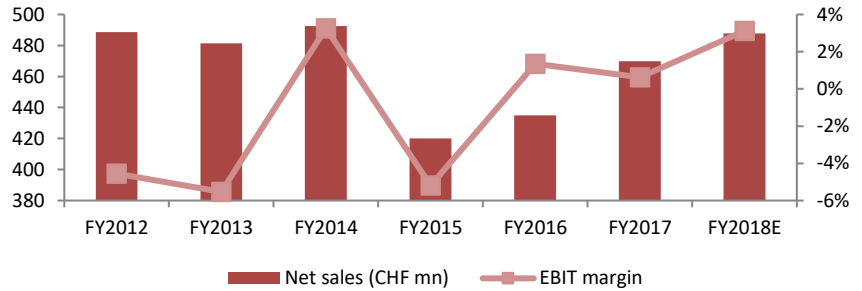
### Valuation: outperformed the benchmark by a wide margin

CPH has outperformed the SPI Index by 54pp since the beginning of 2017. On an absolute basis, CPH shares are up 69.6% since 2017 as the company successfully delivered on its business reorganization plans. At current price levels, CPH trades at a discount of 54% to its peers on P/S basis. Similarly, CPH is trading at a premium of 14% to its peer average EV/EBITDA. We expect the company to improve its earnings in the near to medium-term. Also, with newsprint prices possibly inching up and the Chemistry and Packaging segments posting profitable revenue growth, CPH should be able to further improve its performance.

**FY2017 – Positive EBIT despite price pressures**

In 2017, the combination of higher volumes across all divisions and internationalization of the company’s operations lifted the top-line by 8.0% y/y to CHF 469.8mn (FY2016: CHF 434.8mn). The Packaging division grew the most by 9.2% y/y, thereby growing the European market share to over 26%, even as the international expansion continued. The Chemistry division also continued to grow, in line with the strategic realignment in 2017 with a new arrangement of its operations worldwide.

**Exhibit 1: CPH Net sales vs EBIT margin**

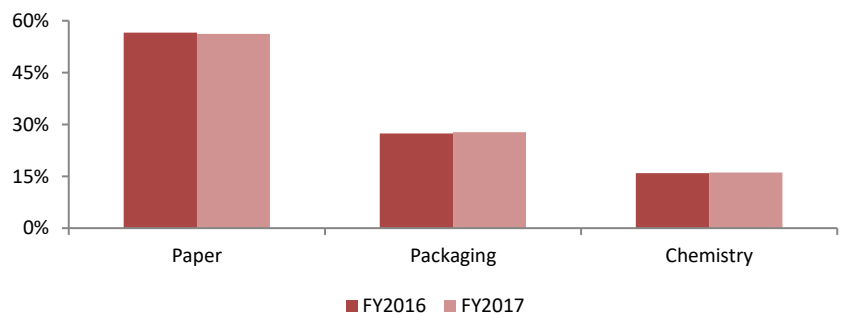


Source: Company data, Research Dynamics

Overall, CPH’s energy costs remained stable at CHF 54.2mn (vs. CHF 54.1mn in 2016), even as revenue and volumes grew, thanks to increased operational efficiencies. The efficiency gains included the conversion of the waste incineration plant in Perlen to the biomass facility which also helped the Paper division to become almost carbon-neutral. Energy costs as a percentage of sales declined to 11.5%, as compared to 12.5% in 2016. Personnel costs declined 5.1% y/y to CHF 84.5mn, on the back of transferring five product lines from Switzerland to the newly started production facility at Bosnia-Herzegovina. Accordingly, personnel costs as a percentage to sales witnessed a decline of 2.5pp (18.0%) from 20.5% in 2016. On the other hand, the cost of materials increased from 52% to 54% of production-generated sales. Although the group made significant progress on all divisions, gross profit still declined to CHF 161.1mn in 2017 from CHF 168.2mn in 2016, down by 4.2% y/y. The negative impact is attributed to the negative development of paper prices and higher cost for recovered paper. Similarly, EBITDA declined to CHF 33.8mn in 2017 from CHF 36.9mn in previous year, giving an EBITDA margin of 7.2%. The group reported an EBIT of CHF 2.9mn, as compared to CHF 5.9mn in 2016. CPH Group reported a net profit of CHF 16.2mn in 2017, a significant improvement over a loss of CHF 7.7mn in FY2016. The net profit number in 2017 was positively impacted by CHF 22.8mn income arising out of the sale of real-estate.

The company, according with its strategy execution, continued to expand outside of Europe, although Europe still remains the biggest source of revenue with ~78% of total revenue arising from the region. CPH’s successful expansion in Asia and realignment of the Chemistry division has started yielding results, evidenced by a significantly improved EBIT margin for the Chemistry division. All three company divisions displayed encouraging numbers, even as the revenue mix remained largely the same with Paper contributing 56.2% (56.6% in 2016) of Group net sales in 2017, while the Chemistry and Packaging divisions contributed 16.1% and 27.7%, respectively.

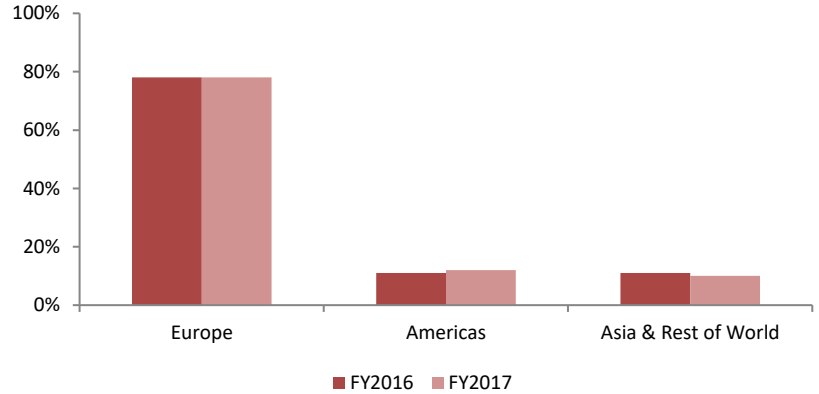
**Exhibit 2: CPH Net sales by division**



Source: Company data, Research Dynamics

In terms of geographies, Europe’s contribution remained highest at 78% (2016: 78%), with 1pp decline from Switzerland (11%) offset by 1pp gain in Europe (excl. Switzerland). Similarly, contribution from the Americas (12%; +1pp y/y) and Asia (9%; -1pp y/y) remained largely stable.

**Exhibit 3: CPH net sales by region**



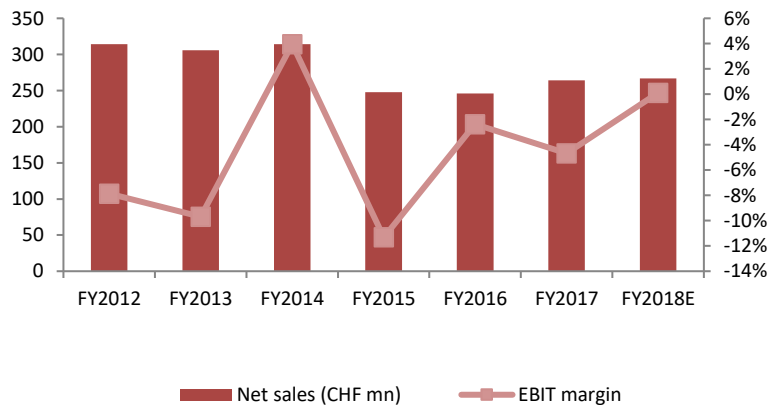
Source: Company data, Research Dynamics

**Segmental performance**

- **Paper: Higher volumes drive top-line growth**

The performance of the Paper division was largely impacted by transportation costs on the input and output materials. Thus, the company has focused on regionalising the input materials through the acquisition of Papierfabrik Utzenstorf’s waste paper sorting facility. In 2017, the Paper division’s sales grew 7.3% y/y to CHF 264.1mn, driven by higher volumes (8.0% y/y to 554k tonnes) on the back of c.34k tonnes of inventory reduction. Newsprint volumes were up by 6% y/y to 380k tonnes, resulting in a higher market share of 35.9% (vs. 34.7% in 2016) in Switzerland. On the other hand, the magazine paper market share remained flat at 27.7% (vs. 27.8% in 2016) despite of an 10.8% rise in volumes sold. Exports to the rest of Europe accounted for 81% of total sales in 2017, followed by Switzerland (15%), Asia (3%) and the Americas (1%). The division was particularly impacted by a steep rise in recovered paper prices; however, operational efficiencies were partially able to mitigate the adverse impact. EBITDA for the segment stood at CHF 9.1mn in 2017, down from CHF 15.5mn, while EBIT came in at CHF -12.3mn from CHF -5.8mn in 2016. The negative EBIT can be further attributed to the increase in recovered paper prices, whereas the price for paper continued to deteriorate in 2017.

**Exhibit 4: Paper sales and EBIT margin**

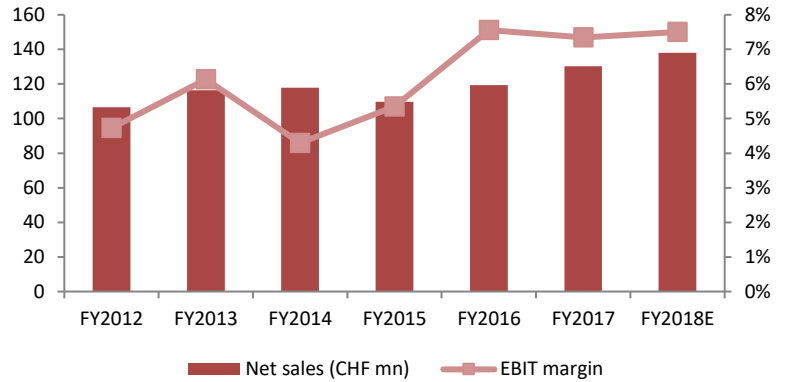


Source: Company data, Research Dynamics

• **Packaging: Revenues grew despite headwinds**

Revenues from the Packaging business stood at CHF130.2mn, up 9.2% y/y, largely driven by a rise in sales of higher-barrier films. CPH's sales volumes grew by 7.2% y/y in 2017, resulting in a higher market share of over 26%. Utilisation at the European facilities were close to 100% and Europe remained the highest contributor to total sales with 68% (vs. 67% in 2016), followed by the Americas (16%), Asia (15%) and the Rest of the World (1%). Domestic sales contributed 6% to total revenues. EBITDA grew to CHF 15.5mn, up by 7.6% y/y, despite higher competition from rising capacities in China and higher raw material (Ethylene) costs. EBIT grew to CHF 9.6mn (+6.1% y/y over 2016) with a margin of 7.3%.

**Exhibit 5: Packaging net sales and EBIT margin**

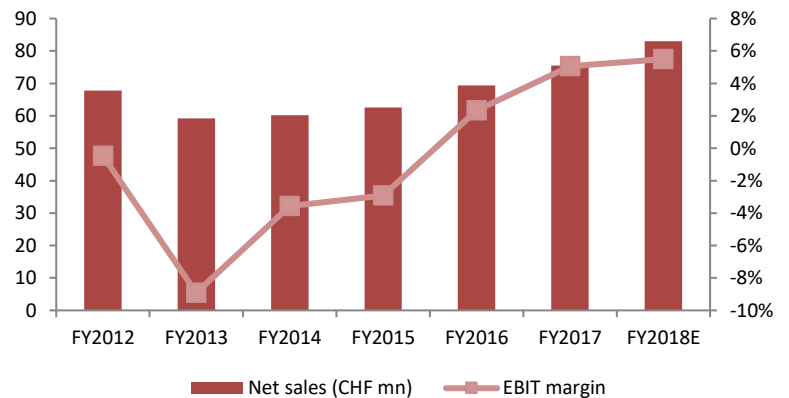


Source: Company data, Research Dynamics

• **Chemistry: Capacity utilisation adds to EBIT margin improvement**

The Chemistry division continued its upward spiral with a consecutive fourth year of a rising top-line. Revenues increased by 8.8% y/y to CHF 75.5mn in 2017, mainly driven by organic growth. The reduction in sales on account of the absence of fertiliser sales in 2H17 was largely offset by the full year consolidation of ALSIO in China. Production facilities in the US required additional investments to counter the increased production demand during the year. Additionally, optimum utilisation of capacities available in China through transfer of standard molecular sieves' production aided cost reduction for the division. Accordingly, EBITDA grew 29.2% y/y to reach CHF 7.3mn. The division reported an EBIT of CHF 3.8mn with a margin improvement to 5.1% from 2.3% in 2016.

**Exhibit 6: Chemistry net sales and EBIT margin**



Source: Company data, Research Dynamics

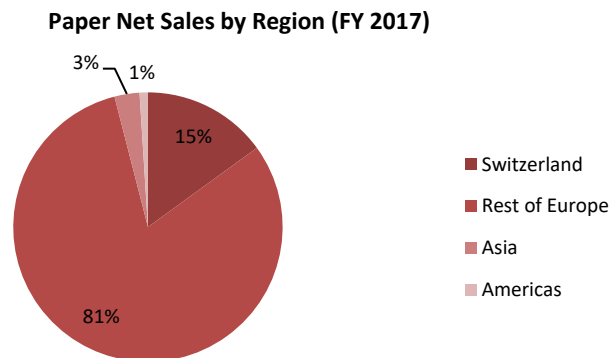
## Business strategy update

CPH continues to focus on and force its strategy to diversify its geographical revenue base, to reduce currency volatility, lower dependence on the paper segment and to invest into the faster growing Packaging and Chemistry segments. The company continues to make further progress on its strategy and, we believe, is on track to meet its objectives in the mid-to-longer term. Even though the contribution of the Paper segment to total revenues has remained high, the company managed to grow its market share in domestic and European markets. Additionally, the company has been fairly successful in improving its top-line in absolute terms in markets outside Europe, even as the contribution mix remains largely unchanged. CPH will thus continue to diversify its geographical base, while better balancing its three business segments and reducing currency dependence.

### Paper

The paper industry remains mired with a slowdown in demand due to continued adoption of latest technologies, resulting in a supply glut in the market. Moreover, standardised final products with limited scope for differentiation require cost efficiencies to remain relevant in the market. For logistics and other reasons, including transportation expense, the division supplies within an 800-km radius from its production site and thus has a high exposure to Europe and the EUR currency. In order to enhance its cost leadership and competitiveness, CPH has recently acquired Papierfabrik Utzenstorf, which allows Perlen Paper to source recycled paper almost entirely from local sources. This vertical integration is expected to result in annual cost savings of over CHF 5mn, given the savings in cost of sourcing recovered paper. Moreover, the acquisition of Papierfabrik Utzenstorf provides the opportunity to supply paper to the erstwhile customers of the acquired company. The Paper division plans investments of ~CHF 11.3mn in 2018 to optimize its processes and its production facilities.

**Exhibit 7: Paper sales by region – 2017**



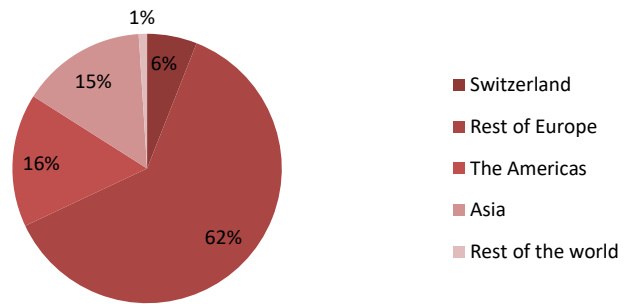
Source: Company data, Research Dynamics

### Packaging

CPH's Packaging division caters to the pharmaceuticals' industry. The division is expanding its presence globally and, with the completion of the new production facility in Suzhou/China, the company has production facilities across the globe (Switzerland, Germany, the US and China). The division's operations in China are expected to monetize double-digit growth in demand for pharmaceutical products in Asia. Accordingly, a number of commissions for Asian customers has been transferred to the new facility. In addition to the above, the company recently acquired majority stake in Sekoya of Brazil with a view to expand its footprint in Latin America. The company aims to substantially increase the division's share of sales from the Latin American market, where standards of living, incomes and the demand for medicines are all on the rise. Meanwhile, on the production side, the company is developing new film products with high barrier credentials. The revenue contribution from new products (introduced over the last five years) increased to 18% in 2017, from 17% in 2016.

**Exhibit 8: Packaging sales by region – 2017**

**Packaging Net Sales by Region (FY2017)**



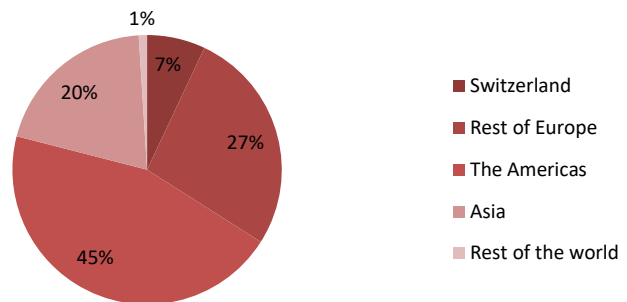
Source: Company data, Research Dynamics

**Chemistry**

It was a year of strategic realignment for the Chemistry division, with the integration of the production facilities of China-based molecular sieve manufacturer Jiangsu ALSIO Technology. In addition, the US plant now supplies high-value molecular sieves that are used in particular to purify air in the oxygen concentration process. The transformation of the division continued with the company's new production facility in Bosnia and Herzegovina, spread across a 5,500 sq. meter site, which started production in the later part of 2017. The production of molecular sieve powders, chromatography gels and special zeolites has been transferred at the end of 2017 from the present Swiss location (Uetikon). While the manufacture of deuterated solvents and high-performance gels will remain in Switzerland (and be moved to a new location in Rüti, Canton of Zurich), fertilizer production ceased in mid-2017. Moreover, the acquisition of Armar AG will result in a further strengthening of the highly specialized deuterated products segment. The strategic realignment will give the Chemistry division production facilities in the US, China, Bosnia and Herzegovina and Switzerland, thus placing the division well to cater to global growth opportunities.

**Exhibit 9: Chemistry sales by region – 2017**

**Chemistry Net Sales by Region (FY 2017)**



Source: Company data, Research Dynamics

**Outlook and estimates**

We believe CPH will continue to report on an improving performance in 2018. The company's near-to-medium term growth is expected to be driven by the group's increasing exposure to the fast-growing markets of Asia. Cost efficiencies driven by low cost production facilities in China and Bosnia & Herzegovina are expected to support and increase margins. The company has a mid-term organic sales growth target of 3% annually, along with an EBITDA margin of more than 10% (which might be conservative once the investments into the Chemistry and Packaging divisions, alongside with a stabilization in the Paper division, are paying off). The company also set a dividend distribution policy of 30-50% depending on free cash flow generation.

**Paper: Cost efficiencies to drive performance**

The paper industry remains in a downturn with falling demand and excess capacity. The demand for newsprint and magazine paper is likely to decrease further in Europe this year. However, moderate recovery in demand for magazine paper has recently been observed, given the growing demand for paper in the advertising industry. The industry has witnessed a consolidation over the past decade with only half of 54 companies surviving until 2017. In our view, falling demand of paper should drive further consolidation where only around 10 companies might survive over the medium-to-longer term, with CPH being one of the key players remaining.

Newsprint paper prices are showing slight signs of recovery at the beginning of the year and are likely to be stabilized in the longer-term as the demand/supply gap narrows. The magazine paper segment continues to remain under pressure, despite capacity reduction, but prices are expected to show little movement on the short term. Going forward, demand for newsprint and magazine paper in Europe is expected to continue to decline as people continue to adopt new technologies. Still, newspaper prices are expected to be stable on lower supply/demand (assuming there will be a bottom to the demand), while magazine paper could have a positive headwind during the economic expansion. The Group's focus remains on improving cost efficiencies to remain relevant in the market. The acquisition of Papierfabrik Utzenstorf should help in achieving significant costs savings (approx. CHF 5mn annually) as the waste-paper supplies now come from within Switzerland, thereby reducing transportation and logistical costs. In addition, changes in China's policy in terms of waste paper sourcing has led to a decrease in European recovered paper prices at the end of 2017, as the continuous demand in China was in the past one of the main drivers for higher prices. We expect the division's revenues to grow moderately by 1% in 2018, and expect it to marginally break even at EBIT level.

**Packaging: Optimum utilization of capacity to drive performance**

CPH's Packaging division caters primarily to the pharmaceuticals' industry. The company manufactures PVC mono-films and coated PVdC films which are primarily used in blister packs for medicines. CPH is the market leader in supplying films with high barrier credentials that are most effective at protecting the substances involved from outside elements. The demand is increasing for higher-barrier films as the complexity of the medicinal substances are increasing, thus becoming more sensitive to outside influences. The demand for the company's packaging products will grow on the back of higher demand for medicines and medications arising from rising lifestyle-based disorders and increased life expectancy. Accordingly, the plan for the transfer of its production to the Chinese plant is expected to lower production costs for the division, resulting in improved margins. Moreover, Latin America remains conducive for higher growth in the demand for the Packaging division's products given the rise in standards of living, incomes and the demand for medicines. Further the division wants to increase its leadership with innovative products. One example has been shown with the development of the first disposable single-dose powder inhaler, which could have in significant commercial impact within the next 5 years. Division revenues and earnings are expected to rise in 2018, albeit at a somewhat lower rate, after increasing 9.2% y/y in 2017.

**Chemistry: Strategic realignments to continue**

CPH's Chemistry division produces silica-based molecular sieves used in industrial and chemical industries and the production of fuels. The division also produces chromatography gels used to separate pharmaceutical agents. In 2017, the Chemistry division saw a significant strategic realignment. The division has relocated some parts of production to Lianyungang, China (ALSIO facilities) and also to the new plant in Zvornik, Bosnia & Herzegovina. Full integration of Jiangsu ALSIO Technology is expected to lower production costs for more standardized products, even as the company aims to expand its outreach to the growing Asian market more effectively. According to the company, the Chemistry division will continue to pursue its strategic repositioning of internationalization. The division also intends to develop high-value applications along with its chromatography gels and has ear-marked a capex of CHF 4.5mn for 2018. We expect the division to post a revenue growth of 10% y/y to CHF 83.0mn, of which 3% growth is expected to stem from full integration of Armar.



**Exhibit 10: Chemistry business realignment – 2018**



Source: Company data

**Dividend distribution:** CPH Group announced a dividend proposal of CHF 0.65 per share for 2017. The distribution of dividends should continue to grow in tandem with the improvement in future performance. Also, the company is generating positive free cash flow and the financial situation is likely to improve going forward.

**Valuation and conclusion:** CPH Group businesses operate in largely cyclical industries. This is why we use the discounted cash flow (DCF) methodology to arrive at an intrinsic value of the stock. We have used a weighted average cost of capital (WACC) of 5.2% based on a cost of equity of 6.2% and a pre-tax cost of debt of 2.9%. The beta that we used in our calculations is slightly higher than the Bloomberg provided number due to the small size of the company and the current prevailing macroeconomic headwinds such as the volatility in CHF/EUR exchange rate resulting in the sharp spike in the value of the Swiss currency and the low-price regime of the European paper industry. We have forecast cash flows until 2023 and thereafter taken a terminal growth rate of 1%. Based on these factors, we arrive at an intrinsic value of CHF 80.5 per share, giving it an upside potential of 17.5% on current prices.

**Sensitivity of Value per share (CHF)**

		Sensitivity Table				
		WACC				
		3.2%	4.2%	5.2%	6.2%	7.2%
Terminal growth rate	0.25%	122	89	70	57	47
	0.50%	133	95	73	59	49
	0.75%	146	101	76	61	50
	1.00%	162	108	80	64	52
	1.25%	182	117	85	66	54
	1.50%	208	127	90	69	56
	1.75%	243	139	96	73	58

Source: Company data, Research Dynamics

Since the Group operates in three entirely different divisions with no synergies between them, we have prepared a different set of industry peers for each of CPH’s divisions.

We have employed three parameters – EV/EBITDA, P/S and P/E – to analyze the relative valuation of the Group. Initially, we have calculated the peer average of CPH’s individual divisions, and then taken a weighted average of these based on the sales contribution of the respective division. Given its diversified business model, this consolidated peer average is most comparable to CPH’s valuation multiples.

CPH currently trades at a P/S multiple of 0.9x (FY2018E), a significant 54% discount over the weighted average of division peers.



**Exhibit 11:CPH – Comparison with division peers**

Company	EV/EBITDA			P/S			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
CPH Chemie & Paper	9.4x	10.7x	9.2x	0.6x	0.9x	0.8x	24.6x	61.8x	33.0x
<b>Paper peers:</b>									
Holmen	7.8x	11.4x	11.6x	1.0x	2.2x	2.1x	15.2x	18.6x	18.9x
Stora Enso	6.3x	8.0x	7.9x	0.4x	1.1x	1.1x	11.6x	13.9x	13.6x
Altri	7.9x	6.8x	6.2x	0.7x	1.4x	1.4x	10.4x	9.4x	8.6x
Metsa Board	5.8x	8.8x	8.5x	0.4x	1.3x	1.2x	15.2x	14.4x	13.2x
UPM-Kymmene	6.1x	8.7x	8.8x	0.5x	1.5x	1.5x	11.3x	14.7x	14.5x
Norskse Scogindustrier	NA	NA	NA	NA	NA	NA	88.6x	NA	NA
James Cropper	2.6x	NA	NA	0.3x	0.0x	0.0x	9.1x	31.1x	27.0x
OJI Holdings	NA	1210.9x	1178.9x	NA	0.5x	0.5x	11.6x	15.7x	14.2x
<b>Chemistry peers:</b>									
Honeywell Int.	8.4x	13.2x	12.4x	1.4x	2.7x	2.7x	14.2x	19.3x	17.8x
Clariant	6.6x	NA	NA	0.6x	NA	NA	11.1x	NA	NA
Arkema	5.4x	6.5x	6.3x	0.7x	0.9x	0.9x	9.8x	13.9x	12.9x
WR Grace & Co.	7.8x	10.6x	9.8x	1.7x	2.5x	2.3x	15.9x	17.9x	15.9x
<b>Packaging peers:</b>									
Meadwestwaco	6.0x	NA	NA	0.7x	NA	NA	13.7x	NA	NA
MacFarlane Group	5.8x	0.1x	0.1x	0.2x	0.0x	0.0x	7.7x	12.0x	11.5x
Gerresheimer	7.0x	8.9x	8.4x	1.0x	1.4x	1.4x	14.2x	14.5x	13.4x
West Pharmaceutical Services	9.9x	16.8x	14.8x	1.7x	3.7x	3.5x	20.1x	30.4x	26.7x
Convertidora Industrial	8.4x	NA	NA	0.4x	NA	NA	NA	NA	NA
PSB Industries	4.6x	5.4x	5.2x	0.4x	0.4x	0.4x	8.1x	10.1x	8.8x
Astrapak Ltd	4.5x	NA	NA	0.3x	NA	NA	9.4x	NA	NA
Biccare Ltd	3.3x	NA	NA	0.2x	NA	NA	2.7x	NA	NA
Median	6.2x	8.8x	8.5x	0.6x	1.4x	1.3x	11.6x	14.6x	13.9x
High	9.9x	1210.9x	1178.9x	1.7x	3.7x	3.5x	88.6x	31.1x	27.0x
Low	2.6x	0.1x	0.1x	0.2x	0.0x	0.0x	2.7x	9.4x	8.6x
Premium (disc) to peers	52%	21%	8%	(1%)	(37%)	(37%)	NA	322%	137%

Source: Bloomberg (as on 22 February 2018)

**Exhibit 12:CPH – Comparison with weighted average of division peers**

	EV/EBITDA			P/S			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Weighted peer multiples	6.7x	9.4x	8.8x	0.8x	1.9x	1.8x	11.6x	16.1x	14.7x
CPH	9.4x	10.7x	9.2x	0.6x	0.9x	0.8x	24.6x	61.8x	33.0x
Premium (disc) to peers	41%	14%	4%	(28%)	(54%)	(53%)	NM	284%	125%

Source: Bloomberg (as on 22 February 2018)

## DETAILED FINANCIAL STATEMENTS

### Income statement

CHF mn	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Chemistry sales	59	60	63	69	75	83	87
Paper sales	306	314	248	246	264	267	269
Packaging sales	116	118	110	119	130	138	142
<b>Net Sales</b>	<b>481</b>	<b>492</b>	<b>420</b>	<b>435</b>	<b>470</b>	<b>488</b>	<b>498</b>
Cost of Sales	(323)	(313)	(285)	(267)	(309)	(312)	(317)
<b>Gross profit</b>	<b>158</b>	<b>180</b>	<b>135</b>	<b>168</b>	<b>161</b>	<b>176</b>	<b>181</b>
Personnel cost	(86)	(88)	(86)	(89)	(84)	(87)	(89)
Outsourced maintenance/repairs	(19)	(18)	(16)	(18)	(17)	(17)	(18)
Other operating expense	(22)	(23)	(21)	(25)	(26)	(25)	(25)
<b>Total operating costs</b>	<b>(127)</b>	<b>(129)</b>	<b>(123)</b>	<b>(131)</b>	<b>(127)</b>	<b>(129)</b>	<b>(132)</b>
<b>EBITDA</b>	<b>31</b>	<b>51</b>	<b>12</b>	<b>37</b>	<b>34</b>	<b>46</b>	<b>50</b>
Depreciation on tangible fixed assets	(57)	(34)	(34)	(31)	(30)	(31)	(30)
Depreciation on intangible assets	(1)	(1)	(0)	(1)	(1)	(0)	(1)
<b>Operating profit (EBIT) before impairment</b>	<b>(27)</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>3</b>	<b>15</b>	<b>19</b>
Impairment	(251)	0	0	0	0	0	0
<b>Operating profit (EBIT)</b>	<b>(278)</b>	<b>16</b>	<b>(22)</b>	<b>6</b>	<b>3</b>	<b>15</b>	<b>19</b>
Finance costs	(5)	(7)	(13)	(6)	(8)	(6)	(5)
Finance income	1	2	1	1	2	0	0
<b>Total financial income (expenses)</b>	<b>(4)</b>	<b>(6)</b>	<b>(12)</b>	<b>(5)</b>	<b>(7)</b>	<b>(6)</b>	<b>(5)</b>
<b>Profit before taxes (before exceptional items)</b>	<b>(281)</b>	<b>10</b>	<b>(34)</b>	<b>1</b>	<b>(4)</b>	<b>10</b>	<b>14</b>
Non-operating items	2	1	2	(4)	23	0	0
Income taxes	8	(1)	(1)	(4)	(3)	(2)	(3)
<b>Profit attributable to the parent</b>	<b>(271)</b>	<b>11</b>	<b>(33)</b>	<b>(8)</b>	<b>16</b>	<b>7</b>	<b>11</b>
<b>Basic EPS</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>2.7</b>	<b>1.2</b>	<b>1.8</b>
<b>Diluted EPS</b>	<b>(45.2)</b>	<b>1.8</b>	<b>(5.5)</b>	<b>(1.3)</b>	<b>2.7</b>	<b>1.2</b>	<b>1.8</b>
<b>DPS</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.9</b>

Source: Company data, Research Dynamics

### Balance sheet

CHF mn	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Assets</b>							
<b>Non-current assets</b>							
PPE	433.7	419.1	404.3	384.6	384.1	375.4	364.5
Intangible assets	1.2	1.3	2.4	3.1	4.8	6.8	9.5
Long-term financial assets	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Long-term financial receivables	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Other non-current assets	22.4	22.7	20.2	52.6	56.4	56.4	56.4
<b>Total Non Current Assets</b>	<b>467.3</b>	<b>456.0</b>	<b>436.9</b>	<b>450.3</b>	<b>455.3</b>	<b>448.6</b>	<b>440.3</b>
<b>Current assets</b>							
Inventories	56.9	63.4	54.5	68.9	59.2	62.9	62.2
Trade accounts receivable	70.8	79.5	66.4	69.1	77.8	76.3	77.9
Other receivables	7.3	7.7	8.0	8.9	18.0	10.0	10.0
Prepaid expenses and accrued income	5.3	6.6	4.9	4.8	7.0	7.0	7.0
Short-term financial receivables	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Liquid funds and Securities	74.2	75.1	53.2	70.4	80.2	75.7	70.5
<b>Total assets</b>	<b>681.8</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>697.6</b>	<b>680.4</b>	<b>667.9</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	30.0	30.0	30.0	30.0	30.0	12.0	12.0
Capital reserves	16.2	12.3	8.4	4.8	0.8	(2.1)	(6.0)
Profit reserves	659.5	389.2	397.4	351.2	346.4	362.4	369.8
Net result for the year	(271.5)	10.5	(33.1)	(7.9)	16.0	7.4	10.6
<b>Non-current liabilities</b>							
Long-term financial liabilities	117.9	128.0	126.5	145.6	143.5	126.4	109.5
Pension scheme liabilities	0.7	0.6	1.0	1.1	0.6	0.6	0.6
Other long-term liabilities	2.5	2.4	2.3	0.1	0.0	0.0	0.0
Long-term provisions	21.3	20.8	20.0	52.5	51.8	51.8	51.8
<b>Current liabilities</b>							
Trade accounts payable	59.4	53.8	46.7	53.1	69.5	69.9	70.6
Other payables	4.4	3.9	2.6	8.3	3.3	3.3	3.3
Accrued liabilities and deferred income	11.0	9.1	13.6	16.5	17.2	17.2	17.2
Short-term financial liabilities	23.0	22.6	6.8	7.0	9.8	22.8	19.8
Short-term provisions	7.2	5.1	1.5	7.6	5.6	5.6	5.6
<b>Total liabilities</b>	<b>247.5</b>	<b>246.4</b>	<b>221.2</b>	<b>291.6</b>	<b>301.3</b>	<b>297.7</b>	<b>278.4</b>
<b>Total equity and liab.</b>	<b>681.8</b>	<b>688.4</b>	<b>624.0</b>	<b>672.4</b>	<b>697.6</b>	<b>680.4</b>	<b>667.9</b>

Source: Company data, Research Dynamics

### Cash flow statement

	0	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net profit for the period		(271,5)	10,5	(33,1)	(7,7)	16,2	7,4	10,6
Non-cash adjustments:		298,8	30,3	35,3	33,9	(1,5)	31,3	30,8
<b>Change in current assets and liabilities:</b>								
(Increase)/ decrease in inventories		(2,6)	(5,5)	8,4	(13,1)	13,6	(3,6)	0,7
Decrease in trade accounts receivable		3,4	(11,2)	8,1	(0,5)	(7,7)	1,6	(1,6)
Increase/ (decrease) in trade accounts payable		6,4	(5,8)	(6,8)	1,6	15,8	0,4	0,7
Other changes in working capital		(3,0)	1,5	6,5	5,6	(3,9)	8,0	-
<b>Cash flows from operating activities</b>		<b>31,4</b>	<b>19,8</b>	<b>23,3</b>	<b>21,9</b>	<b>32,2</b>	<b>45,0</b>	<b>41,2</b>
Investments in tangible fixed assets		(18,2)	(19,2)	(21,9)	(20,7)	(32,3)	(19,2)	(19,1)
Disposals of tangible fixed assets		0,9	0,4	1,6	20,5	15,4	-	-
Investments in intangible assets		(0,5)	(0,6)	(1,6)	(1,2)	(2,4)	(2,4)	(3,4)
Investments in business activities		-	-	-	(18,5)	-	(20,0)	-
Repayment of long-term financial receivables		0,0	-	-	-	-	-	-
<b>Cash flow generated (used) in investment activities</b>		<b>(17,8)</b>	<b>(19,4)</b>	<b>(22,0)</b>	<b>(19,9)</b>	<b>(19,3)</b>	<b>(41,6)</b>	<b>(22,5)</b>
Increase/ (Decrease) in short-term financial liabilities and receivables		(2,0)	(0,4)	(15,3)	0,1	1,0	13,0	(3,1)
Increase/ (Decrease) in long-term financial liabilities		(10,8)	9,8	(1,1)	19,0	(0,6)	(17,0)	(16,9)
Increase in other long-term liabilities		2,5	(0,2)	(0,1)	(0,4)	0,2	-	-
Minority interests and changes resulting from minorities		-	-	-	-	-	-	-
Dividends to shareholders		(3,9)	(3,9)	(3,9)	(3,6)	(3,9)	(3,9)	(3,9)
<b>Cash flow generated (used) in financing</b>		<b>(14,2)</b>	<b>5,3</b>	<b>(20,4)</b>	<b>15,2</b>	<b>(3,3)</b>	<b>(7,9)</b>	<b>(23,9)</b>
Exchange (losses)/gains		(0,2)	0,2	2,3	0,1	0,2	-	-
<b>Net change in cash</b>		<b>(0,7)</b>	<b>6,0</b>	<b>(16,7)</b>	<b>17,2</b>	<b>9,8</b>	<b>(4,5)</b>	<b>(5,2)</b>
Opening cash balance		64,7	63,9	69,9	53,1	70,3	80,1	75,6
<b>Closing cash balance</b>		<b>63,9</b>	<b>69,9</b>	<b>53,1</b>	<b>70,3</b>	<b>80,1</b>	<b>75,6</b>	<b>70,4</b>

Source: Company data, Research Dynamics

### Key ratios

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Growth Ratios</b>							
Sales Growth	(2%)	2%	(15%)	4%	8%	4%	2%
Chemistry division	(13%)	2%	4%	11%	9%	10%	5%
Paper division	(3%)	3%	(21%)	(1%)	7%	1%	1%
Packaging division	9%	1%	(7%)	9%	9%	6%	3%
Operating Profit Growth	NM	NM	NM	NM	(51%)	NM	24%
Net Income Growth	NM	NM	NM	NM	NM	(54%)	44%
<b>Profitability Ratios (%)</b>							
Operating margin (before impairment) (%)	(6%)	3%	(5%)	1%	1%	3%	4%
Chemistry division	(9%)	(4%)	(3%)	2%	5%	6%	6%
Paper division	(10%)	4%	(11%)	(2%)	(5%)	0%	1%
Packaging division	6%	4%	5%	8%	7%	8%	8%
EBITDA Margin %	6%	10%	3%	8%	7%	10%	10%
Net Margin (%)	(56%)	2%	(8%)	(2%)	3%	2%	2%
<b>Return Ratios</b>							
Profit Margin	(56%)	2%	(8%)	(2%)	3%	2%	2%
Asset Turnover	0,6x	0,7x	0,6x	0,7x	0,7x	0,7x	0,7x
Financial Leverage	1,4x	1,6x	1,6x	1,7x	1,8x	1,8x	1,7x
Dupont ROE (%)	(47%)	2%	(8%)	(2%)	4%	2%	3%
ROCE (%)	(5%)	3%	(4%)	1%	1%	3%	4%
ROA (%)	(33%)	2%	(5%)	(1%)	2%	1%	2%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0,3x	0,3x	0,3x	0,4x	0,4x	0,4x	0,3x
Net Debt - Equity Ratio	0,2x	0,2x	0,2x	0,2x	0,2x	0,2x	0,2x
Interest Coverage	(6,0x)	5,2x	(5,5x)	1,4x	0,7x	2,7x	3,6x
<b>Liquidity Ratios</b>							
Current Ratio	2,0x	2,5x	2,6x	2,4x	2,3x	2,0x	2,0x
Quick Ratio	1,5x	1,8x	1,9x	1,7x	1,7x	1,4x	1,4x
<b>Valuation Ratios</b>							
EV/EBITDA	13,7x	6,2x	25,8x	12,8x	14,0x	10,2x	9,5x
P/E	NM	22,9x	NM	NM	25,7x	55,5x	38,6x
P/BV	0,8x	0,5x	0,6x	1,1x	1,0x	1,1x	1,1x

Source: Company data, Research Dynamics

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