



Chargeurs

Holding Companies / France



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Ship-shape form and growth-minded

Significant news - 10/09/2017

Fact

Chargeurs released a strong H1 17, unsurprisingly pulled up by its Protective Film business. The company kick-starts even more ambitious growth plans to double its size to €1bn revenues by 2022 including external growth.

2017 H2 may suffer from expenses related to setting the foundations to faster but sound growth.

Chargeurs goes for an interim €0.25 dividend, up 25%, and showing great confidence in its FCF generation.

AlphaValue is contracted by Chargeurs to provide equity research on Chargeurs, using AlphaValue's unique and transparent methods and procedures. Target price and opinion are thus exclusively determined by those methods and procedures.

Reduce

Upside: **4.86%**

Target Price (6 months)	€ 25.2
Share Price	€ 24.0
Market Cap. €M	554
Price Momentum	GOOD
Extremes 12Months	11.7 ▶ 26.7
Bloomberg	CRI FP Equity
Reuters	CRIP.PA


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PERF	1w	1m	3m	12m
Chargeurs	-3.50%	-3.65%	-3.11%	106%
Other financials	-0.41%	-0.81%	-1.15%	20.9%
STOXX 600	-0.17%	-1.14%	-3.51%	7.50%

Last updated: 24/04/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	9.61	9.81	15.6	15.1
Dividend yield (%)	4.50	5.15	2.91	3.33
EV/EBITDA(R) (x)	3.37	5.18	9.72	9.24
Adjusted EPS (€)	0.69	1.09	1.54	1.59
Growth in EPS (%)	26.9	56.8	41.3	3.18
Dividend (€)	0.30	0.55	0.70	0.80
Sales (€M)	499	506	552	572
Underlying operat. profit ma...	6.13	8.06	8.34	8.35
Attributable net profit (€M)	15.3	25.0	35.3	36.4
ROE (after tax) (%)	7.41	11.2	14.8	14.1
Gearing (%)	-7.43	-5.43	-2.46	-5.31

[Company Valuation](#) - [Company Financials](#)

(€m)	H1 2017	H1 2016	Change	
Revenue	281.8	253.5	+28.3	+11.2%
Like-for-like change (%)				+5.4%
EBITDA	29.1	25.3	+3.8	+15.0%
as a % of revenue	10.3%	10.0%		
Recurring operating profit	23.5	20.3	+3.2	+15.8%
as a % of revenue	8.3%	8.0%		
Attributable net profit	13.9	13.1	+0.8	+6.1%

Analysis

Protective Films makes the cash flow music. LFL top-line growth at 5.8% is impressive while world GDP growth is not much above 3%. Real world H1 growth stands at 11%, partly thanks to the acquisition of Main Tape in the US. The impressive figure though is the mind-blowing 12.7% recurring EBIT margin. The 11.2% reached over FY2016 was deemed to be deserved as the division worked harder and harder on efficiency gains. The implicit view is that this is not sustainable without tailwinds. The answer is in the H1 performance, while H2 may be less bright as opex is expected to reflect preparatory work to speed up top-line growth.

The Fashion Technologies business, long regarded as also-ran, is in fighting form as well. The slight drop in margin over H1 can be ascribed to shifts in seasonal comps and, here again, opex related to higher growth projects. Management makes a case that it is winning/recovering top-notch fast-fashion clients.

The Technical Substrate business as previously stated is extracting the best from a heavy bout of capex completed 18 months ago. That was welcomed as large-sized technical textiles may well be all the rage as the 7.8% top-line growth suggests.

The low capital intensity wool business is showing steady earnings since it has been de-risked but this may well change over the next two years. Indeed, Chargeurs has confirmed that it has set in place a trading system where there is no increase in risk but wider margins as Chargeurs will be warranting ultimate users that the wool's quality is up to scratch. The cost base will have to go up (more staff, IT systems from "Sheep to shop" (!)) but this should lead to somewhat higher gross margins.

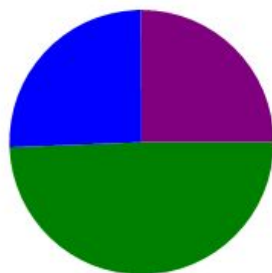
Management is insistent that it is now ready to floor the growth pedal with smoothly running businesses, the financing firing power lined up, a stainless steel balance sheet and a plan, i.e. to grow its worldwide niches. That may sound as an oxymoron but it has been demonstrated that as innocuous a business as interlining for apparel can be turned into a growth proposition with higher tech products addressed to fast-fashion.

Other P&L items include a higher interest bill as the price to pay for accumulating ammunition before going for assets and a drop in apparent tax as the group makes good use of its tax loss carry forwards. As a reminder, it is fairly difficult to project such usage.

■ Impact

H1 deliveries have led us to trim our 2017 top-line growth expectations for Fashion Tech and Technical Substrate. For these businesses, we are also being a bit more cautious on EBIT margins as the firm is clearly in investment mode. Conversely, the all-important Protective Film business is left untouched for the year in progress. 2018 and 2019 are a different story as the hard push for higher growth may kick in with thus more ambitious top-line growth but no surge in margin. In all, our EPS are trimmed for 2017, hardly changed for 2018, and we buy a rosier future in 2019. The valuation benefits from cranking up the DCF side of the game to allow for more ambitious targets.

Sales by Geography



■ Europe (49.4%)
■ Asia (25.6%)
■ Americas (25.1%)

Consolidated P&L Accounts

		12/16A	12/17E	12/18E
Sales	€M	506	552	572
Change in sales	%	1.48	8.97	3.57
Change in staff costs	%	1.43	2.88	3.57
EBITDA	€M	48.8	56.0	58.2
EBITDA(R) margin	%	9.64	10.2	10.2
Depreciation	€M	-9.90	-10.0	-10.5
Underlying operating profit	€M	38.9	46.0	47.7
Operating profit (EBIT)	€M	33.9	45.0	46.7
Net financial expense	€M	-2.00	-3.50	-3.50
of which related to pensions	€M	-0.40	-0.08	-0.10
Exceptional items & other	€M			
Corporate tax	€M	-4.90	-6.70	-7.26
Equity associates	€M	-2.00	0.50	0.50
Minority interests	€M	0.00	0.00	0.00
Adjusted attributable net profit	€M	25.0	35.3	36.4
NOPAT	€M	24.9	32.8	34.0

Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€M	48.8	56.0	58.2
Change in WCR	€M	0.80	-0.30	0.00
Actual div. received from equity holdi...	€M	0.30	0.50	0.50
Paid taxes	€M	-8.00	-6.70	-7.26
Exceptional items	€M	0.00		
Other operating cash flows	€M	-8.00	-5.00	-5.00
Total operating cash flows	€M	33.9	44.5	46.4
Capital expenditure	€M	-10.8	-13.0	-14.0
Total investment flows	€M	-31.4	-16.0	-17.0
Net interest expense	€M	-2.00	-3.50	-3.50
Dividends (parent company)	€M	-11.5	-12.7	-16.1
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	0.00	0.00	0.00
Total financial flows	€M	59.9	-27.1	-30.5
Change in cash position	€M	56.4	1.46	-1.05
Free cash flow (pre div.)	€M	21.1	28.0	28.9

Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...	Mio	23.0	23.0	23.0
Number of diluted shares (average)	Mio	23.0	23.0	23.0
Benchmark EPS	€	1.09	1.54	1.59
Restated NAV per share	€			
Net dividend per share	€	0.55	0.70	0.80

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 25.8	55%	<ul style="list-style-type: none"> ■ Akzo Nobel ■ Solvay ■ Wendel ■ Bolloré ■ GBL ■ Sonae ■ Hal Trust ■ Eurazeo
Dividend Yield	€ 23.9	20%	
DCF	€ 23.9	10%	
P/E	€ 30.5	10%	
P/Book	€ 15.2	5%	
TARGET PRICE	€ 25.2	100%	

NAV/SOTP Calculation

Balance Sheet

		12/16A	12/17E	12/18E
Goodwill	€M	90.1	92.0	95.0
Total intangible	€M	92.1	94.0	97.0
Tangible fixed assets	€M	61.8	66.0	72.0
Financial fixed assets	€M	14.9	16.0	18.0
WCR	€M	21.7	22.0	22.0
Other assets	€M	23.8	27.0	29.0
Total assets (net of short term liab.)	€M	217	229	243
Ordinary shareholders' equity	€M	227	249	270
Quasi Equity & Preferred	€M			
Minority interests	€M	0.00	0.00	0.00
Provisions for pensions	€M	16.7	15.0	15.0
Other provisions for risks and liabilities	€M	0.50	1.00	1.00
Total provisions for risks and liabilities	€M	17.2	16.0	16.0
Tax liabilities	€M	-29.0	-30.0	-30.0
Other liabilities	€M	3.10	5.00	5.00
Net debt (cash)	€M	-1.40	-10.9	-17.8
Total liab. and shareholders' equity	€M	217	229	243

Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€M	195	198	209

Profits & Risks Ratios

		12/16A	12/17E	12/18E
ROE (after tax)	%	11.2	14.8	14.1
ROCE	%	12.8	16.6	16.3
Gearing (at book value)	%	-5.43	-2.46	-5.31
Adj. Net debt/EBITDA(R)	x	0.05	-0.19	-0.31
Interest cover (x)	x	24.3	13.5	14.0

Valuation Ratios

		12/16A	12/17E	12/18E
Reference P/E (benchmark)	x	9.81	15.6	15.1
Free cash flow yield	%	8.60	5.08	5.25
P/Book	x	1.08	2.22	2.04
Dividend yield	%	5.15	2.91	3.33

EV Calculation

		12/16A	12/17E	12/18E
Market cap	€M	245	551	551
+ Provisions	€M	17.2	16.0	16.0
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-1.40	-10.9	-17.8
+ Leases debt equivalent	€M	4.00	0.01	0.01
- Financial fixed assets (fair value)	€M	16.0	16.0	16.0
+ Minority interests (fair value)	€M	4.00	4.00	4.00
= EV	€M	253	545	538
EV/EBITDA(R)	x	5.18	9.72	9.24
EV/Sales	x	0.50	0.99	0.94