ALPHAVALUE CORPORATE SERVICES

Chargeurs

Holding Companies / France

H1 21: strong execution and record order books raise confidence on FY22 outlook

Earnings/sales releases - 13/09/2021

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Buy	**Upside: 30.9%**
Target Price (6 months)	€ 34.8
Share Price	€ 26.6
Market Cap. €M	647
Price Momentum	**STRONG**
Extremes 12Months	15.3 ▶ 26.6
Sustainability score	3.1 /10
Credit Risk	BB ➔
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

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PERF	1w	1m	3m	12m
Chargeurs	14.3%	15.3%	20.1%	58.4%
Other financials	-0.57%	0.21%	7.96%	30.1%
STOXX 600	-1.18%	-1.68%	2.59%	26.9%

Last updated: 31/05/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	9.00	23.6	20.5	17.0
Dividend yield (%)	8.34	2.26	2.45	2.71
EV/EBITDA(R) (x)	5.48	11.2	10.2	8.20
Adjusted EPS (€)	1.76	1.13	1.30	1.56
Growth in EPS (%)	167	-35.9	15.0	20.5
Dividend (€)	1.32	0.60	0.65	0.72
Sales (€M)	822	711	761	846
Underlying operat. profit ma...	9.65	7.47	8.27	8.95
Attributable net profit (€M)	41.0	26.2	30.3	36.8
ROE (after tax) (%)	17.5	11.4	12.7	13.4
Gearing (%)	75.7	93.8	79.1	61.4

Company Valuation - Company Financials

The company reported an encouraging first half, driven by the strong performance of Protective Films and Healthcare Solutions, though all divisions contributed positively to the group's profitability in H1. With cash generation from operations having reached €131m over the past 18 months, Chargeurs disposes of a sizeable war chest with its acquisition strategy now back on the offensive. On the organic growth front, strong order books for its core activities stand as encouraging signs of an upbeat FY22 performance.

Fact

- Chargeurs posted total sales of €372m over H1, up +14% lfl versus the 'pre -pandemic' H1 19 level. Taking account of the exceptional sales contribution of CHS in H1 20, revenues declined by 28% yoy.
- The group's EBITDA came in at €46m (12.4% margin), while the recurring operating profit reached €34m, corresponding to a 9.1% margin.
- Cash generation was very strong, with cash from operations reaching €58m, which helped reduce the net debt position to €89m, compared to €127m at the end of December 2020.
- Based on the solid H1 performance, the group has decided to distribute a dividend of €0.48 per share.
- The FY21 outlook is subject to the evolution of the still ongoing sanitary crisis and the recovery of its core activities that remain affected (CFT and CLM notably). Nonetheless, management is "very confident" on 2022.

€m	H1 2021	H1 2019	change
Revenue	372.4	326.1	+14.2%
EBITDA	46.3	32.5	+42.5%
As a % of revenue	*12.4%*	*10.0%*	
Recurring operating profit	34.0	22.7	+49.8%
As a % of revenue	*9.1%*	*7.0%*	
Attributable net profit	24.7	8.3	+197.6%
Net cash from operating activities	58.0	0.5	x 116

Source: Company reports

Analysis

Let's start by prefacing that the H1 20 performance was of the one-off kind as €254m of the €519m in revenues reported was driven by the surging demand for personal protective equipment in the context of the pandemic. Given this, a more apt comparison is to the 'pre-pandemic' levels, which show an encouraging picture as group revenues rose +11.6% versus H1 19, in spite of CFT-PCC and CLM still on the path to recovery as economies gradually reopen to non-essential retail.

Upbeat results driven by Protective Films

The top-line growth was driven by the record half-year performance at CPF, with revenues of €169m posting growth of +29% lfl when compared to H1 20, and +21% lfl versus H1 19. As we had mentioned in the revision to our estimates back in April, CPF stood in a prime position to leverage the strong demand of industrial goods and construction materials, with margins benefiting from the division's high-end product portfolio and state-of-the-art production capacity. This proved to be true, with rising demand from the building and home appliances sector boosting the order book to nearly twice its 'normalised' level.

On the margin side, as the price of polyethylene surged, Chargeurs was able to minimise the impact on margins thanks to its strong pricing power, partly passing them on to consumers, and benefiting from supply contracts already signed at lower sales prices. This resulted in an underlying operating profit of €12m, corresponding to an 8.4% margin, compared to our 8.0% forecast.

Post-pandemic normalisation improves outlook

For CHS, while revenues regularised from the extraordinary business environment of the PPE market in H1 20 (€71m versus €254m last year), the division saw improvements in its operating profitability, driven by its high-quality and service-focused approach according to the Chargeurs ethos. Recurring operating profit came in at €18m, posting a solid 25.4% margin. New product launches and the signing of distribution contracts with partners in the health and personal care space should support revenue generation to reach the upper end of the €50-100m FY21 guidance.

Regarding Museum Solutions, the incorporation of D&P and Hypsos had a positive scope effect, with revenues for the division rising by +9.6% lfl versus H1 20. While a partial restart of the activities of the non-museum activities and the strong operating profitability of D&P also resulted in a significant improvement in margins yoy (from 3.2% to 9.9% in H1 21). As restrictions related to the sanitary crisis gradually subside, the level of activity should normalise, with significant room for improvement next year, particularly for the businesses exposed to retail and trade shows.

On CFT-PCC and CLM, both divisions remain subject to the weakness of the fashion and retail sectors, with revenue remaining roughly stable yoy. Nonetheless, there are encouraging signs as CFT's order book surpassed the August 2019 levels, and the market environment should improve through H2 and 2022 with the progressive reopening of the economies as the pandemic risk subsides.

Solid cash generation supports external growth offensive

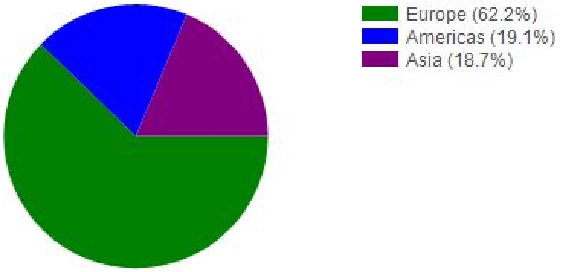
Overall, the group recurring operating result reached €34m, corresponding to a 9.1% margin, which stands above our €28m forecast. The strong operating performance and effective working capital management resulted in very solid cash generation over H1, amounting to €58m. This not only helped reduce the net debt level to a low 1.1x EBITDA, but also boost the liquidity position to almost €400m. Based on this, the group has substantial financial flexibility to pursue external growth, with management pointing to a more aggressive acquisition strategy, the outcomes of which are already surfacing as it announced the acquisition of a British luxury products business.

We see this newest addition to the company roster as a natural progression for Chargeurs as it matches its high-value added and low-capital intensity ambitions. This may lead to the creation of a sixth pillar that could help the group achieve its 2025 targets.

Impact

Given that the outlook for H2 remains subject to the full reopening of economies as the sanitary crisis subsides, we will not make significant changes to our current forecasts, particularly for the divisions that have been the most affected, i.e. CFT-PCC and CLM. Regarding 2022, management's confidence on next year's performance and the strong visibility given the record order book levels, particularly for CPF, will lead us to improve our 2022 assumptions and further supports our positive opinion on the stock.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
NAV/SOTP per share	€ 38.9	55%
Dividend Yield	€ 29.1	20%
DCF	€ 37.5	10%
P/E	€ 29.8	10%
P/Book	€ 17.5	5%
TARGET PRICE	€ 34.8	100%

NAV/SOTP Calculation

Largest comparables

- Ackermans & van H...
- Wacker Chemie
- AkzoNobel
- Solvay
- Bolloré
- GBL
- Sonae
- Hal Trust

Consolidated P&L Accounts

		12/20A	12/21E	12/22E
Sales	€M	822	711	761
Change in sales	%	31.3	-13.5	6.92
Change in staff costs	%	5.36	9.75	7.31
EBITDA	€M	102	72.8	78.7
EBITDA(R) margin	**%**	**12.5**	**10.2**	**10.3**
Depreciation	€M	-20.6	-20.8	-19.9
Underlying operating profit	€M	79.3	48.7	55.3
Operating profit (EBIT)	**€M**	**55.8**	**40.7**	**47.3**
Net financial expense	€M	-9.50	-10.5	-11.0
of which related to pensions	€M	-0.30	-0.20	-0.28
Exceptional items & other	€M			
Corporate tax	€M	-4.30	-4.56	-6.43
Equity associates	€M	-1.70	0.50	0.50
Minority interests	€M	0.70	0.00	0.00
Adjusted attributable net profit	**€M**	**40.3**	**26.2**	**30.3**
NOPAT	€M	54.0	34.8	39.4

Cashflow Statement

		12/20A	12/21E	12/22E
EBITDA	€M	102	72.8	78.7
Change in WCR	€M	2.60	1.22	0.26
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-6.40	-4.56	-6.43
Exceptional items	€M			
Other operating cash flows	€M	-14.6	-8.00	-8.00
Total operating cash flows	€M	84.0	61.5	64.5
Capital expenditure	€M	-14.9	-16.5	-17.3
Total investment flows	€M	-76.9	-26.5	-27.3
Net interest expense	€M	-9.50	-10.5	-11.0
Dividends (parent company)	€M	-5.90	-18.8	-8.93
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	-0.10	0.00	0.00
Total financial flows	€M	111	-50.4	-48.9
Change in cash position	€M	115	-15.4	-11.8
Free cash flow (pre div.)	**€M**	**59.6**	**34.5**	**36.2**

Per Share Data

		12/20A	12/21E	12/22E
No. of shares net of treas. stock (year...	Mio	23.1	23.3	23.5
Number of diluted shares (average)	Mio	22.9	23.2	23.4
Benchmark EPS	**€**	**1.76**	**1.13**	**1.30**
Restated NAV per share	€			
Net dividend per share	**€**	**1.32**	**0.60**	**0.65**

Balance Sheet

		12/20A	12/21E	12/22E
Goodwill	€M	191	197	204
Total intangible	€M	229	235	242
Tangible fixed assets	€M	83.1	90.1	97.1
Financial fixed assets	€M	7.00	7.00	7.00
WCR	€M	19.6	18.4	18.1
Other assets	€M	71.4	35.0	37.0
Total assets (net of short term liab.)	€M	456	433	449
Ordinary shareholders' equity	**€M**	**237**	**223**	**254**
Quasi Equity & Preferred	€M			
Minority interests	€M	-0.80	0.00	0.00
Provisions for pensions	€M	16.8	18.2	18.4
Other provisions for risks and liabilities	€M	0.40	0.40	0.40
Total provisions for risks and liabilities	€M	17.2	18.6	18.8
Tax liabilities	€M	-30.5	-30.0	-30.0
Other liabilities	€M	22.2	13.4	13.4
Net debt (cash)	**€M**	**211**	**208**	**193**
Total liab. and shareholders' equity	€M	456	433	449

Capital Employed

		12/20A	12/21E	12/22E
Capital employed after depreciation	€M	377	390	404

Profits & Risks Ratios

		12/20A	12/21E	12/22E
ROE (after tax)	**%**	**17.5**	**11.4**	**12.7**
ROCE	%	14.3	8.92	9.75
Gearing (at book value)	**%**	**75.7**	**93.8**	**79.1**
Adj. Net debt/EBITDA(R)	x	2.43	3.39	2.96
Interest cover (x)	x	8.62	4.73	5.16

Valuation Ratios

		12/20A	12/21E	12/22E
Reference P/E (benchmark)	**x**	**9.00**	**23.6**	**20.5**
Free cash flow yield	%	16.3	5.57	5.80
P/Book	x	1.54	2.78	2.46
Dividend yield	**%**	**8.34**	**2.26**	**2.45**

EV Calculation

		12/20A	12/21E	12/22E
Market cap	€M	366	620	624
+ Provisions	€M	17.2	18.6	18.8
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	173	169	154
+ Leases debt equivalent	€M	38.1	38.9	39.6
- Financial fixed assets (fair value)	€M	32.3	32.3	32.3
+ Minority interests (fair value)	€M	0.00	0.00	0.00
= EV	€M	562	814	804
EV/EBITDA(R)	**x**	**5.48**	**11.2**	**10.2**
EV/Sales	x	0.68	1.14	1.06

Analyst : Jorge Velandia, Changes to Forecasts : 31/05/2021.