Chargeurs

Support Services / France

Operational results in line with the 2023 expectations

Earnings/sales releases - 16/02/2024

Although 2023 was disappointing, Chargeurs' top-line and underlying operating profit were broadly in line with our expectations. As had been warned, the pain came from the cash flow spinner, Chargeurs Advanced Materials, in the face of order volatility. The bright side was Chargeurs Museum Studio with astounding deliveries. 2023's low Ebit-FCF had to contend with soaring interest costs of €29.7m and gearing concerns. This need not be structural and will not derail the management's long-term ambitions.

Fact

- Chargeurs has launched a takeover bid at €12 per share for its leading shareholder Columbus to garner more than 50% (50% + 1 share at least) of Chargeurs. The offer is valid until March 13, 2024. Consequently, no dividend will be paid this year and investors will have to wait until 2025.
- Chargeurs posted revenues of €653.2m in 2023, down by 6.9% organically, and underlying profit was down by 42% to €26.6m, but overall in line with our expectations, mainly affected by CAM.
- In 2023, Chargeurs Advanced Materials (CAM) reported revenues of €272m, corresponding to a decline of 18.2% yoy (organic of 17%), and underlying profit from operations was down by 55.7% to €10.1m, above our expectations. The division was penalized by demand volatility.
- Chargeurs Museum Studio (CMS) reported a sharp rise in sales to €105.8m (above the expected €120m including Hypsos, which was classified as an "asset held for sale"). Operating income for the division came to €8.5m, up by 44%, bringing the margin up to 8%.
- In line with the lower EBITDA contribution (particularly at CAM), the net cash flow from operating activities fell sharply from -€7.4m to -€15.2m.
- The Group's net debt position had deteriorated to €235.6m at the end of 2023 from €174.7m at the end of 2022, bringing the Net Debt/EBITDA ratio to 5x from 2.6x in 2022.
- From 2024, Chargeurs expects the business to pick up. Chargeurs is intent on strengthening its debt ratio, with a target Net Debt/EBITDA ratio of 2.5x to 3.5x thanks to an Ebitda recovery.

€m	2023	2022	var. 22 vs. 21	
Total full-year			reported	like-for-like
Technologies	**465.1**	**559.0**	**-16.8%**	**-10.1%**
Chargeurs Advanced Materials	272.0	332.6	-18.2%	-17.3%
Chargeurs PCC Fashion Technologies (incl. Healthcare Solutions)	193.1	226.4	-14.7%	+0.6%
Chargeurs PCC Fashion Technologies (excl. Healthcare Solutions)	*193.1*	*220.0*	*-12.2%*	*+3.5%*
Luxury	**188.1**	**174.9**	**+7.5%**	**+3.4%**
Chargeurs Museum Studio	105.8	74.7	+41.6%	+33.5%
Chargeurs Luxury Fibers	73.3	94.7	-22.6%	-21.0%
Chargeurs Personal Goods	9.0	5.5	+63.6%	+14.5%
Group Total	**653.2**	**733.9**	**-11.0%**	**-6.9%**

Analysis

Chargeurs faced a particularly challenging 2023 environment marked by China's slowdown, record high energy costs, high interest rates and slowing industrial sectors. Chargeurs' FY 2023 results were penalized by the decline of Chargeurs

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Add	**Upside: 21.0%**
Target Price (6 months)	€ 14.4
Share Price	€ 11.9
Market Cap. €M	301
Price Momentum	**STRONG**
Extremes 12Months	6.40 ▶ 15.2
Sustainability score	2.3 /10
Credit Risk	B ↗
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

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PERF	1w	1m	3m	12m
Chargeurs	0.17%	1.02%	36.6%	-15.9%
Support Services	0.84%	4.51%	7.12%	-0.97%
STOXX 600	0.67%	3.27%	7.48%	5.21%

Last updated: 22/11/2023	12/22A	12/23E	12/24E	12/25E
Adjusted P/E (x)	18.3	72.5	19.9	12.2
Dividend yield (%)	4.51	1.52	5.03	8.21
EV/EBITDA(R) (x)	8.72	10.7	8.07	6.34
Adjusted EPS (€)	0.92	0.16	0.60	0.98
Growth in EPS (%)	-29.2	-82.3	267	63.3
Dividend (€)	0.76	0.18	0.60	0.98
Sales (€M)	746	669	753	843
Underlying operat. profit ma...	6.08	3.91	5.75	7.06
Attributable net profit (€M)	22.1	3.92	14.4	23.2
ROE (after tax) (%)	8.08	1.45	5.30	7.78
Gearing (%)	53.5	74.3	74.7	68.3

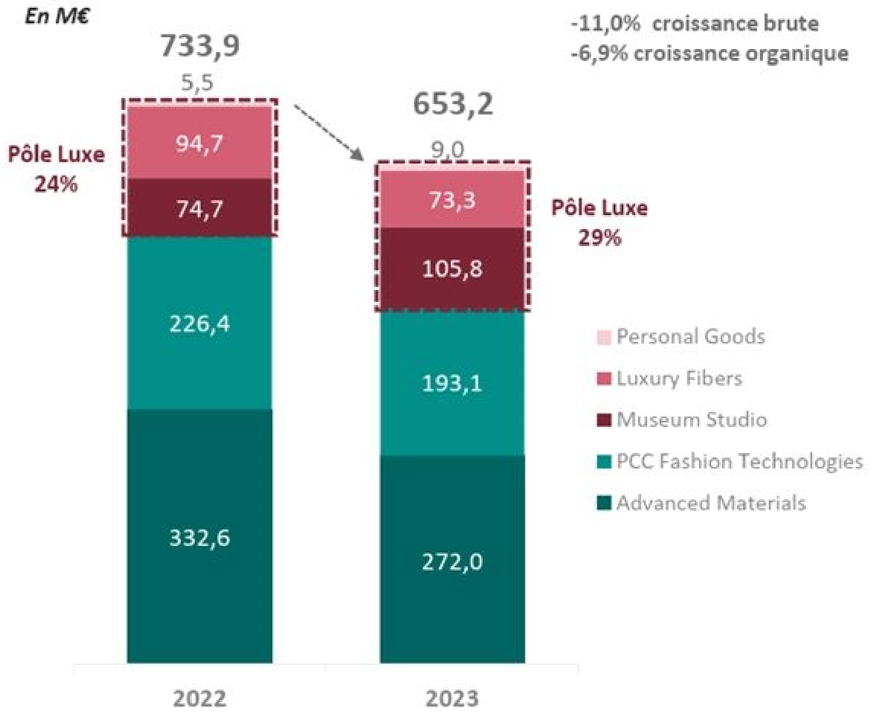
Company Valuation - Company Financials

Advanced Materials (CAM), with a negative volume effect, in spite of the Q4 23 rebound. Nevertheless, the Group's top-line and margin figures were broadly in line with our estimates. Over 2023, Chargeurs recorded an 11% drop in revenues (of which 7% organic) to €653.2m (vs. €733.9m in 2022 and €669m expected) and an 11% drop in underlying operating profit to €26.6m (vs. €46.1m in 2022 and €26.2m expected).

Takeover bid: take up or shut up

After a particularly tumultuous 2023, Chargeurs launched its takeover bid at a price of €12, initiated by Colombus Holding and Colombus Holding 2, controlled by CEO Michaël Fribourg, with no intention of delisting its shares. Family money (Columbus and its backers) is keen to take a long-term view for Chargeurs that will not be impressed by short-term profitability swings. Effectively Columbus is offering an opportunity for short-term holders to exit gracefully. The "new" Chargeurs will be on display in Q1-2025 once the strategic plans are finalized. We would speculate that the banks – which are essential to this long-term deployment- are happy to back Columbus with limited strings attached.

Divisional revenue breakdown



On the revenue side, the performance of the Luxury and Technology divisions was very mixed in 2023, with organic growth of +3.4% and -10.1% respectively. In the technology division, Chargeurs Advanced Materials (CAM) and Chargeurs PCC Fashion Technologies (PCC-FT) both had a difficult year, with declines of 18.2% and 12.2% respectively. In H1-23, CAM was penalized by a contraction in volumes in a context of post-Covid destocking and the gradual recovery in volumes seen in Q3-23 failed to offset the fall in polyethylene costs passed through to clients. Looking ahead, Chargeurs expects volumes to improve from 2024 onwards, albeit without returning to their record levels of 2021-2022. CFT PCC, for its part, was penalized by hyperinflation and the sharp devaluation (50%) in the Argentine peso, but maintained its organic growth at 3.5% in 2023.

The Luxury division maintained its momentum, boosted by the expansion of Chargeurs Museum Studio, which reported remarkable organic sales growth of 33.5% in 2023 to €105.8m, and €120m including Hypsos. The Group reaffirmed its guidance for sales of €150m in 2024, notwithstanding the disposal of Hypsos. The Chargeurs Luxury Fibers division recorded an organic decline of 21%, with sales of €73.3m due, in particular, to the cyclone that hit its business at the beginning of the year.

Lower profitability, again penalized by CAM

On the profitability front, in line with the negative developments at CAM, Ebit fell sharply to €26.6m from €46.1m in 2023, although in line with our expectations (estimated at €26.2m). As such, CAM recorded an abnormally low level of operating income from activities, at €10.1m or 3.7% of sales, due to lower absorption of fixed costs. On the other hand, consistent with its 42% revenue growth, CMS recorded a 44% increase in its operating profit to €8.5m, bringing the margin up to 8% in 2023. CLF and CFT-PCC margins were in line with our expectations. For CFT-PCC, profitability was impacted by higher energy costs and hyperinflation, which had a €3m negative effect on EBIT, reducing the margin to 7%. As for CLF, profitability increased to 3%, against an EBIT margin of 2.1% in 2022, under cover of the NATIVA boom.

Low FCF generation putting pressure on the balance sheet

On the back of the lower EBITDA contribution (particularly at CAM), the net cash flow from operating activities fell sharply from -€7.4m to -€15.2m. Together with higher capex, the Group's net debt position deteriorated to €235.6m at the end of 2023 from €174.7m at the end of 2022, increasing the Net Debt/EBITDA ratio to 5x from 2.6x in 2022.

The rise in interest rates, coupled with the hyperinflationary situation in Argentina, led to a sharp increase in financial expenses to €29.7m from €18.9m last year and €20.5m expected.

2024 is shaping up to be better

The worst seems to be over with signs of a rebound, notably with a recovery in volumes in the main business, CAM, which recorded 5% yoy volume growth in the Q4-23. As a result, the Group expects to generate positive operating cash flow and return to a normal level of net income. As a result Chargeurs hopes to achieve a net debt/EBITDA ratio of around 2.5-3.5x.

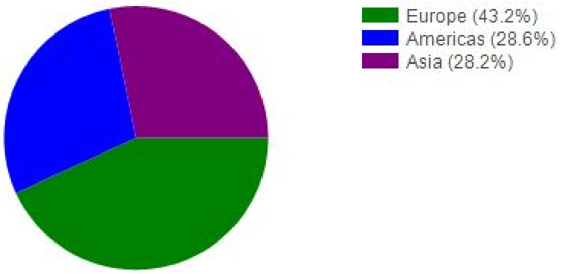
2025 will set the new roadmap

As Chargeurs has said, 2024 is a transitional year, even if CAM should begin to bounce back. It will take until 2025 for us to see any change at Chargeurs, when a new operating plan for the 2025-2030 cycle will be unveiled. Until then, investors will need to be patient.

Impact

The 2023 earnings release is also a turning point to some sort of a Chargeurs Mark II under the aegis of its CEO and controlling shareholder. CEO Fribourg is bent on deploying value expansion for Chargeurs as a holding company over the long run. The message is that minorities are welcomed but should not bother complaining to the management about any short-term earnings vagaries. AlphaValue will most probably revert to its analysis of Chargeurs as a HoldCo (building up asset value) as opposed to an integrated conglomerate (focused on short-term earnings and pay-outs). The target price is unlikely to suffer.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
DCF	€ 11.7	35%
NAV/SOTP per share	€ 28.0	20%
EV/Ebitda	€ 6.72	20%
P/E	€ 6.87	10%
Dividend Yield	€ 17.7	10%
P/Book	€ 18.7	5%
TARGET PRICE	€ 14.4	100%

NAV/SOTP Calculation

Largest comparables

- Teleperformance
- Bureau Veritas
- Rentokil Initial
- Quadient
- AkzoNobel

Consolidated P&L Accounts

		12/22A	12/23E	12/24E
Sales	€M	746	669	753
Change in sales	%	1.33	-10.3	12.6
Change in staff costs	%	6.99	5.45	5.40
EBITDA	€M	67.9	47.8	64.9
EBITDA(R) margin	**%**	**9.10**	**7.13**	**8.61**
Depreciation	€M	-22.5	-21.0	-23.6
Underlying operating profit	€M	38.9	20.9	34.7
Operating profit (EBIT)	**€M**	**38.5**	**15.9**	**29.7**
Net financial expense	€M	-19.1	-20.5	-16.2
of which related to pensions	€M		-0.23	-0.96
Exceptional items & other	€M			
Corporate tax	€M	2.50	7.77	0.21
Equity associates	€M	0.00	0.70	0.70
Minority interests	€M	0.20	0.00	0.00
Adjusted attributable net profit	**€M**	**22.1**	**3.92**	**14.4**
NOPAT	€M	29.2	16.6	27.4

Cashflow Statement

		12/22A	12/23E	12/24E
EBITDA	€M	67.9	47.8	64.9
Change in WCR	€M	-40.5	-9.47	-14.0
Actual div. received from equity holdi...	€M	0.00	0.00	0.00
Paid taxes	€M	-4.00	7.77	0.21
Exceptional items	€M			
Other operating cash flows	€M	-15.9	-8.00	-8.00
Total operating cash flows	€M	7.50	38.1	43.1
Capital expenditure	€M	-10.8	-17.8	-20.0
Total investment flows	€M	-23.1	-27.8	-30.0
Net interest expense	€M	-19.1	-20.5	-16.2
Dividends (parent company)	€M	-17.9	-13.2	-1.32
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	-3.90	0.00	0.00
Total financial flows	€M	-81.7	-8.09	-19.5
Change in cash position	€M	-97.3	2.16	-6.47
Free cash flow (pre div.)	**€M**	**-22.4**	**-0.24**	**6.89**

Per Share Data

		12/22A	12/23E	12/24E
No. of shares net of treas. stock (year...	Mio	24.0	24.0	24.2
Number of diluted shares (average)	Mio	24.0	24.0	24.1
Benchmark EPS	**€**	**0.92**	**0.16**	**0.60**
Restated NAV per share	€			
Net dividend per share	**€**	**0.76**	**0.18**	**0.60**

Balance Sheet

		12/22A	12/23E	12/24E
Goodwill	€M	217	224	230
Total intangible	€M	276	283	289
Tangible fixed assets	€M	84.4	91.4	98.4
Financial fixed assets	€M	8.10	8.10	8.10
WCR	€M	15.4	24.9	38.9
Other assets	€M	49.0	49.0	49.0
Total assets (net of short term liab.)	€M	475	499	527
Ordinary shareholders' equity	**€M**	**280**	**262**	**283**
Quasi Equity & Preferred	€M			
Minority interests	€M	0.20	0.20	0.20
Provisions for pensions	€M	12.6	27.3	28.7
Other provisions for risks and liabilities	€M	13.1	13.1	13.1
Total provisions for risks and liabilities	€M	25.7	40.4	41.8
Tax liabilities	€M	-42.8	-42.8	-42.8
Other liabilities	€M	30.4	30.4	30.4
Net debt (cash)	**€M**	**182**	**208**	**215**
Total liab. and shareholders' equity	€M	475	499	527

Capital Employed

		12/22A	12/23E	12/24E
Capital employed after depreciation	€M	413	436	465

Profits & Risks Ratios

		12/22A	12/23E	12/24E
ROE (after tax)	**%**	**8.08**	**1.45**	**5.30**
ROCE	%	7.06	3.80	5.91
Gearing (at book value)	**%**	**53.5**	**74.3**	**74.7**
Adj. Net debt/EBITDA(R)	x	3.11	4.97	3.77
Interest cover (x)	x	2.04	1.03	2.28

Valuation Ratios

		12/22A	12/23E	12/24E
Reference P/E (benchmark)	**x**	**18.3**	**72.5**	**19.9**
Free cash flow yield	%	-5.53	-0.08	2.39
P/Book	x	1.45	1.08	1.02
Dividend yield	**%**	**4.51**	**1.52**	**5.03**

EV Calculation

		12/22A	12/23E	12/24E
Market cap	€M	405	284	289
+ Provisions	€M	25.7	40.4	41.8
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	152	178	184
+ Leases debt equivalent	€M	29.5	29.5	30.1
- Financial fixed assets (fair value)	€M	20.7	20.7	20.7
+ Minority interests (fair value)	€M	0.00	0.00	0.00
= EV	€M	592	511	524
EV/EBITDA(R)	**x**	**8.72**	**10.7**	**8.07**
EV/Sales	x	0.79	0.76	0.70

Analyst : Saïma Hussain, Changes to Forecasts : 22/11/2023.