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Strong 2015 earnings and refreshing growth tone

Earnings/sales releases - 12/03/2016

Fact

Chargeurs released an excellent crop of 2015 earnings with the bottom line up 42% on sales essentially in line with forecasts (released on 28/01). The dividend is up 50% to €0.3 and well above expectations (€0.25).

(in euro millions)	2015	2014	% change
Revenue	498.7	478.3	+4.3%
EBITDA	40.3	31.8	+26.7%
As a % of revenue	8.1%	6.6%	1.4 pt
Recurring operating profit	30.6	22.9	+33.6%
As a % of revenue	6.1%	4.8%	1.3 pt
Attributable net profit	15.3	10.8	+41.7%
	Dec. 31, 2015	Dec. 31, 2014	
Attributable equity	219.3	182.6	
Attributable net cash	23.3	9.3	

Analysis

For the first time, Chargeurs communicates on an EBITDA which, jointly with the recurring operating profit, confirms healthy underlying operations on modestly rising sales. A combination of tight management, industrial optimisation and overall positive forex effect contributed to those better underlying operations. Simply put, the 2015 delivery is the one we expected for 2016. This means 10% ahead of forecasts.

The bottom line at €15.3m, substantially above our own slightly aggressive expectations, is pulled up by tax credits as the new management has opted for a more active use of that "hidden" wealth of Chargeurs. As a reminder, those tax loss carry forwards can only be used against French-based taxable profits, so that the industrial optimisation has presumably beefed up that French taxable earnings base. This is most welcome as it is a direct free cash flow contributor and justifies putting a value on that asset.

Protective Films: stronger than ever

The growth and cash flow generation star business of Chargeurs, Protective Films, has delivered above expectations with EBITDA and operating margins up about 140bp to 11.8% and 9.6% respectively. The business is surfing on the trend for quality and continuous technological improvements that make the use of high tech thin films a productivity factor. The business has been helped by the \$ strength (by running more non-\$ based plants) and presumably by falling polyethylene prices. Cheaper inputs are passed on to customers but with a delay so that steadily falling prices may help.

Fashion Technologies or Interlining reinvented

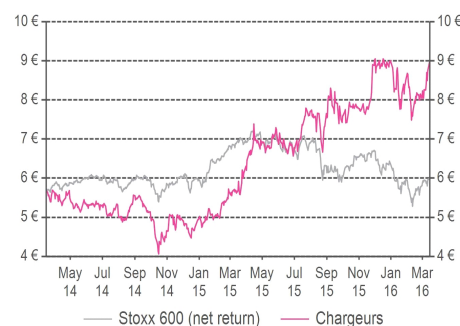
The new governance is giving a positive signal to the ex-Interlining now rechristened Fashion Technologies. This is probably fair as the know-how of this unit that supplies the apparel industry with ever more sophisticated requirements has been hidden by years of retrenchment aimed at severing links with loss-making/late-payer clients. The 3.5% pro forma sales growth is excellent news as is the jump in operating margins up 80bp to 3.5%. It is a fair bet that this business can successfully grow its partnerships with global fashion players even if its bargaining power shall remain limited.

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.

Buy Upside : 47.2%

Target Price (6 months)	€ 13.2
Share Price	€ 8.96
Market Capitalisation €M	207
Price Momentum	GOOD
Extremes 12Months	5.58 ▶ 9.05
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

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PERF	1w	1m	3m	12m
Chargeurs	8.47%	15.9%	0.34%	59.4%
Other financials	1.25%	12.4%	0.03%	-9.30%
STOXX 600	1.09%	10.3%	-1.40%	-13.1%

Last updated: 02/09/2015	12/13A	12/14A	12/15E	12/16E
Adjusted P/E (x)	10.1	9.90	10.5	10.2
Dividend yield (%)	0.00	3.75	3.67	3.35
EV/EBITDA(R) (x)	2.69	3.51	3.95	4.48
Adjusted EPS (€)	0.37	0.54	0.65	0.88
Growth in EPS (%)	n/a	45.8	21.1	34.4
Dividend (€)	0.00	0.20	0.25	0.30
Sales (€M)	467	478	500	520
Underlying operat. profit ma...	3.82	4.47	5.29	5.73
Attributable net profit (€M)	3.20	11.2	13.5	20.2
ROE (after tax) (%)	4.44	6.14	6.45	8.69
Gearing (%)	8.82	-3.04	-5.29	-8.49

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

Technical Substrates has a pleasant start

Technical textiles for non-apparel uses have an excellent birth year with revenues up 22%, operating earnings up 64% and near 18% operating margins. The principle is to endow technical textiles with the right substrate to give them ad hoc features (say capture only a certain type of light). The growth potential is probably enormous as the business is still tiny. The issue is obviously to cater for a wide variety of usages and keep a lean cost base.

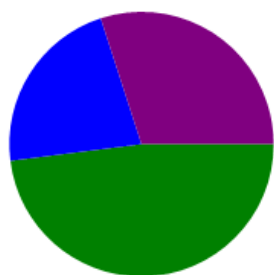
Wool, direction unchanged

Wool's operating earnings are down 25% on declining sales and declining margins (2.7% vs. 3.5%). This needs not be an issue as 2014 was a high reference base, margins would be better if calculated from a gross trading margin rather than on sales and, finally, the group has maintained its drive as an upstream wool trading expert aimed at the high end of the wool value chain.

■ Impact

The combination of strong underlying earnings, magnified use of tax assets and above all an entrepreneurial spirit from the new boss impose a thorough review of the earnings outlook for the best. The valuation that hinges on a Net Asset Value will also be improved by a combination of upgrades to the value of operational assets, a higher value ascribed to the tax assets and a stronger net cash position for the close of 2015. Clearly Chargeurs sports new clothes.

Sales by Geography



■ Europe (48.0%)
■ Americas (22.0%)
■ Other (30.0%)

Consolidated P&L Account

		12/14A	12/15E	12/16E
Sales	€M	478	500	520
Change in sales	%	2.53	4.63	3.96
Change in staff costs	%	2.32	2.81	3.50
EBITDA	€M	31.6	37.0	40.8
EBITDA(R) margin	%	6.61	7.39	7.85
Depreciation	€M	-8.90	-9.50	-10.0
Underlying operating profit	€M	22.7	27.5	30.8
Operating profit (EBIT)	€M	21.4	26.2	29.8
Net financial expense	€M	-6.30	-4.20	-3.10
of which related to pensions	€M	-0.40	-0.32	-0.21
Exceptional items & other	€M			
Corporate tax	€M	-4.30	2.45	-6.82
Equity associates	€M	0.40	-10.7	0.50
Minority interests	€M	0.00	-0.20	-0.20
Adjusted attributable net profit	€M	11.7	15.0	20.2
NOPAT	€M	16.6	8.82	22.2

Cashflow Statement

		12/14A	12/15E	12/16E
EBITDA	€M	31.6	37.0	40.8
Change in WCR	€M	8.60	-7.80	3.00
Actual div. received from equity holdi...	€M	0.70	0.50	0.50
Paid taxes	€M	-4.60	2.45	-6.82
Exceptional items	€M	0.00	0.00	0.00
Other operating cash flows	€M	-7.50	-5.00	-5.00
Total operating cash flows	€M	28.8	27.1	32.5
Capital expenditure	€M	-9.10	-12.0	-10.0
Total investment flows	€M	-9.90	-15.0	-13.0
Net interest expense	€M	-6.30	-4.20	-3.10
Dividends (parent company)	€M	0.00	-3.00	-5.00
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	3.00	0.00	0.00
Total financial flows	€M	3.80	-19.5	-13.9
Change in cash position	€M	22.7	-7.37	5.62
Free cash flow (pre div.)	€M	13.4	10.9	19.4

Per Share Data

		12/14A	12/15E	12/16E
No. of shares net of treas. stock (year...	Mio	23.0	23.0	23.0
Number of diluted shares (average)	Mio	22.9	23.0	23.0
Benchmark EPS	€	0.54	0.65	0.88
Restated NAV per share	€			
Net dividend per share	€	0.20	0.25	0.30

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 13.9	55%	■ Akzo Nobel
Dividend Yield	€ 9.85	20%	■ Solvay
DCF	€ 16.1	10%	■ Wendel
P/E	€ 13.5	10%	■ Bolloré
P/Book	€ 12.0	5%	■ GBL
TARGET PRICE	€ 13.2	100%	■ Sonae
			■ Hal Trust
			■ Eurazeo

NAV/SOTP Calculation

Balance Sheet

		12/14A	12/15E	12/16E
Goodwill	€M	70.4	75.5	75.5
Total intangible	€M	72.6	78.0	78.0
Tangible fixed assets	€M	50.3	53.0	57.0
Financial fixed assets	€M	27.1	19.0	19.0
WCR	€M	23.2	31.0	28.0
Other assets	€M	24.6	28.0	30.0
Total assets (net of short term liab.)	€M	201	214	217
Ordinary shareholders' equity	€M	194	225	240
Quasi Equity & Preferred	€M			
Minority interests	€M	3.80	5.00	5.00
Provisions for pensions	€M	15.5	9.20	9.47
Other provisions for risks and liabilities	€M	0.40	1.00	1.00
Total provisions for risks and liabilities	€M	15.9	10.2	10.5
Tax liabilities	€M	-13.5	-23.0	-23.0
Other liabilities	€M	10.7	11.0	11.0
Net debt (cash)	€M	-9.30	-14.5	-26.1
Total liab. and shareholders' equity	€M	201	214	217

Capital Employed

		12/14A	12/15E	12/16E
Capital employed after depreciation	€M	177	185	186

Profits & Risks Ratios

		12/14A	12/15E	12/16E
ROE (after tax)	%	6.14	6.45	8.69
ROCE	%	9.39	4.77	11.9
Gearing (at book value)	%	-3.04	-5.29	-8.49
Adj. Net debt/EBITDA(R)	x	-0.17	-0.28	-0.54
Interest cover (x)	x	3.85	7.08	10.7

Valuation Ratios

		12/14A	12/15E	12/16E
Reference P/E (benchmark)	x	9.90	10.5	10.2
Free cash flow yield	%	10.9	6.94	9.40
P/Book	x	0.63	0.70	0.86
Dividend yield	%	3.75	3.67	3.35

EV Calculation

		12/14A	12/15E	12/16E
Market cap	€M	123	157	206
+ Provisions	€M	15.9	10.2	10.5
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-9.30	-14.5	-26.1
+ Leases debt equivalent	€M	4.00	4.00	4.00
- Financial fixed assets (fair value)	€M	26.0	16.0	16.0
+ Minority interests (fair value)	€M	3.80	5.00	4.00
= EV	€M	111	146	183
EV/EBITDA(R)	x	3.51	3.95	4.48
EV/Sales	x	0.23	0.29	0.35

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 02/09/2015.