ALPHAVALUE CORPORATE SERVICES

Chargeurs

Holding Companies / France

Solid 2018 execution confirms growth potential

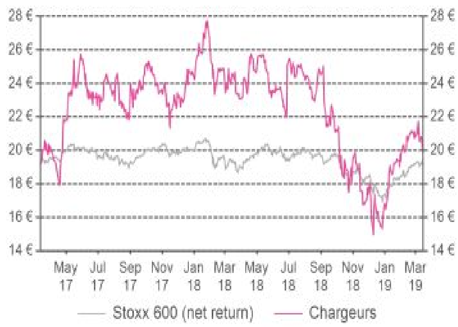
Earnings/sales releases - 15/03/2019

Pierre-Yves GAUTHIER
otherfinancials@alphavalue.eu
+33 (0) 1 70 61 10 50
cs.alphavalue.com

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: 56.5%**
Target Price (6 months)	€ 31.1
Share Price	€ 19.9
Market Cap. €M	464
Price Momentum	**GOOD**
Extremes 12Months	15.0 ▶ 25.8
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

Download Full Analysis   Company Page



PERF	1w	1m	3m	12m
Chargeurs	-5.42%	-4.61%	18.8%	-19.0%
Other financials	1.10%	6.39%	10.4%	2.25%
STOXX 600	1.24%	4.34%	9.02%	0.95%

Last updated: 29/06/2018	12/17A	12/18E	12/19E	12/20E
Adjusted P/E (x)	20.1	17.0	12.1	11.2
Dividend yield (%)	2.74	3.09	4.02	4.53
EV/EBITDA(R) (x)	9.22	9.82	7.25	6.65
Adjusted EPS (€)	1.09	1.33	1.65	1.77
Growth in EPS (%)	0.02	22.2	23.7	7.79
Dividend (€)	0.60	0.70	0.80	0.90
Sales (€M)	533	567	657	688
Underlying operat. profit ma...	8.33	8.54	9.11	9.35
Attributable net profit (€M)	25.2	31.0	38.4	41.4
ROE (after tax) (%)	11.0	13.0	14.9	15.0
Gearing (%)	-2.24	10.6	23.0	19.9

Company Valuation - Company Financials

2018 delivery beats expectations coming from a high 2017 base. 2019 may be subject to more hesitant growth. The young CEO confirms his drive for long-term profitable growth including garnering control of the holding company (Columbus Holdings). Long-term investors can only be pleased by this development.

Fact

FY 2018 earnings beat expectations up to the recurrent operating line (€49m), while the 2017 top line and operating earnings were high benchmarks. The bottom line is marred by higher financing and acquisition-related costs, a mechanical consequence of deploying ample resources in acquired growth.

The company-provided following table offers a commendably clear review of the P&L. There is nothing more to add.

In euro millions	2018	2017	Change		Comments
Revenue	**573.3**	533.0	+40.3	+7.6%	+2.6% like-for-like: premiumization, new improvement in price/mix despite a difficult basis for comparison
Gross margin	**154.3**	141.6	+12.7	+9.0%	Positive price/mix effect and impact of acquisitions
as a % of revenue	*26.9%*	*26.6%*			
EBITDA	**59.8**	54.6	+5.2	+9.5%	Growth driven by effects of productivity plan
as a % of revenue	*10.4%*	*10.2%*			
Depreciation and amortization	**(10.8)**	(10.2)	(0.6)	+5.9%	Ambitious and tightly-controlled strategy for capacity and technology spending
Recurring operating profit	**49.0**	44.4	+4.6	+10.4%	Up 6.5% like-for-like: improved mix and higher volumes. Oper. leverage effect and accretive impact of acquisitions
as a % of revenue	*8.5%*	*8.3%*			
Amort. assets linked to acquis.	**(0.9)**	0.0			Amortization of intangible assets linked to acquisitions in 2018: PCC and Leach
Non-recurring items	**(5.9)**	(5.9)	0.0		Negative impacts of acq. and development projects (€6.4m); CFT & CTS restructuring (€1.3m); and badwill (€1.7m)
Operating profit	**42.2**	38.5	+3.7	+9.6%	Improved mix, accretive impact of acquisitions and good cost discipline
Finance costs, net	*(8.9)*	*(7.5)*	*(1.4)*		*Strengthening of financial resources and extended maturity of borrowings*
Other financial income and expense	*(1.7)*	*(1.0)*	*(0.7)*		*Depreciation of financial assets and unwinding of interest rate swaps*
Net financial expense	**(10.6)**	(8.5)	(2.1)		
Income tax expense	**(5.1)**	(4.0)	(1.1)		Optimized use of the Group's tax loss carryforwards
Investments in equity-accounted investees	**0.1**	(0.8)	+0.9		Positive impact of CLM accounted investees
Profit for the period	**26.6**	25.2	+1.4	+5.6%	Increase of +5.6% thanks to the operational leverage and accretive acquisitions of PCC and Leach

Cash flow and FCF generation are the only clear-cut indications of a tougher going in 2018 as clients, notably on the Protective Film side, run down their own inventories while those of Chargeurs rose. This is presumably transitional but wiped out €22m from working capital so the CF from operations retreated to €14.4m from €30.7m. With a sharp rise in capex (as widely announced) and the first significant acquisitions (€65m spent on two transactions), the net cash position (€9m by the close of 2017) has become a net debt of €92m. This is well within what the balance sheet can stand. This is confirmed by the dividend strategy with a 12% rise to €0.67 for 2018 (€.30 already paid out).

Analysis

Before addressing the divisional performances, it must be stressed that our confidence in Chargeurs and Chargeurs' management has been rising on and on, with 2018 being the third year in which the new team has delivered on its plans. Plans here do not mean one of those so many cost control exercises which are in lieu of genuine strategic thought. At Chargeurs, plans to tackle "profitable growth" are a holistic combination of hiring and training talent for the next 10 years, reinventing brands to create long-term stickiness, making sure that capital is properly remunerated, using the leverage of cheap debt where suitable, keeping a cool head when making (necessary) acquisitions, addressing world markets with niche products, etc.

In many respects the "mayonnaise" that provides an ambitious firm with the proper growth legs appears to be holding. Short-term holders of Chargeurs will inevitably pinpoint to slowing margins ex acquisitions and a duller macro context. We would hold the view that the new management team has made it clear that well thought out acquisitions were part and parcel of the group's growth strategy. On that account, Chargeurs has been impressive in adding spark to what would otherwise be construed as growth-less businesses working on a shoe-string.

Protective Films

Protective Films is where the bears will have a case: flattening margins and a surge in working capital requirement are the 2018 story. This can easily be explained through a combination of unfavourable comps, slower demand and shy customers digging into their own inventories of plastic films. The longer term view is that Chargeurs' prime cash cow has continued investing in new top-notch capacity (on stream by H2 19) and in new products including greener ones where clients are willing to pay for premium goods. The buzzword of "premiumisation" appears to have substance here as more sophisticated films tend to come with a higher level of servicing.

2019 will most likely be dependent on how much Germany slows down, so that top-line growth is expected to be modest and the year to show, at best, moderate progress.

Protective Film's 2018 performance: very resilient actually

	Twelve months			Change 18/17		Change
In euro millions	2018	2017	2016	reported	like-for-like [2]	18/16
Revenue	**283.3**	281.0	250.3	+0.8%	+0.0%	+13.2%
EBITDA	**39.4**	40.3	33.2	-2.2%		+18.7%
as a % of revenue	***13.9%***	*14.3%*	*13.3%*			
Recurring operating profit [1]	**33.0**	34.3	28.0	-3.8%		+17.8%
as a % of revenue	***11.6%***	*12.2%*	*11.2%*			

(1) Before amortization of intangible assets resulting from acquisitions
(2) Based on a comparable scope of consolidation and at constant exchange rates

Fashion Technologies: the 2018 success story

Fashion Technologies' quantum margin jump is largely due to the positive impact of the PCC acquisition (August 2018) but more legacy-type businesses have been pulling up strongly as well. The ex growthless interlining businesses have been turned into a service-intensive proposition aimed at the textile industry and massively so towards the fast-fashion one. To great success as operating margins have gained 300bp to 9.2%. The "iconic" branding strategy that Chargeurs is promoting across the board would seem to have considerable leverage in this business which will benefit from continuing top-line gains next year.

Fashion Technologies' essentials

	Twelve months			Change 18/17		Change
In euro millions	2018	2017	2016	reported	like-for-like [2]	18/16
Revenue	**161.1**	131.2	132.0	+22.8%	+6.9%	+22.0%
EBITDA	**17.9**	11.3	11.7	+58.4%		+53.0%
as a % of revenue	***11.1%***	*8.6%*	*8.9%*			
Recurring operating profit [1]	**14.8**	8.1	8.0	+82.7%		+85.0%
as a % of revenue	***9.2%***	*6.2%*	*6.1%*			

(1) Before amortization of intangible assets resulting from acquisitions
(2) Based on a comparable scope of consolidation and at constant exchange rates

Technical Substrates: the surprise

Although it remains a tiny business with a fair degree of volatility in its reported profits (see table below), it is clear that Chargeurs' management is enthusiastic about the potential offered by the ability to print display-perfect stills on sometimes huge surfaces. Sales up 19% are dominated by the Leach acquisition which has been confirmed as a game-changing one. An unexpected growth area seems to be museums…using those giant top-quality displays. Such surprise markets are indicative of the potential offered by what seemed initially to be a simple cottage industry. Management is keen to stress a €100m top-line target by 2021 from the current €31m. Acquisitions must be in the pipeline.

Technical Substrates' essentials

In euro millions	2018	Twelve months 2017	2016	Change 18/17 reported	like-for-like (2)	Change 18/16
Revenue	**30.7**	25.8	24.6	+19.0%	-5.4%	+24.8%
EBITDA	**5.1**	4.9	4.7	+4.1%		+8.5%
as a % of revenue	***16.6%***	*19.0%*	*19.1%*			
Recurring operating profit (1)	**4.0**	4.0	3.8	+0.0%		+5.3%
as a % of revenue	***13.0%***	*15.5%*	*15.4%*			

(1) Before amortization of intangible assets resulting from acquisitions
(2) Based on a comparable scope of consolidation and at constant exchange rates

Luxury Materials:

Sales up 6.4% lfl are good to have but the point has always been that the business is managed to deliver a proper ROE while attempts to create value in the wool industry take hold. This seems to be happening with tools in place that help track the origins of wool and its processing into a given garment. This is an intriguing experience in creating a need that had a first go with an online luxury brand (Amédée 1851). This initiative shows a genuine open-mindedness to project as fostered by the management team of Chargeurs across the four businesses.

Luxury Materials essentials

In euro millions	2018	Twelve months 2017	2016	Change 18/17 reported	like-for-like (2)	Change 18/16
Revenue	**98.2**	95.0	99.5	+3.4%	+6.4%	-1.3%
EBITDA	**2.7**	2.6	2.9	+3.8%		-6.9%
as a % of revenue	***2.7%***	*2.7%*	*2.9%*			
Recurring operating profit (1)	**2.7**	2.6	2.9	+2.1%		-8.5%
as a % of revenue	***2.7%***	*2.7%*	*2.9%*			

(1) Before amortization of intangible assets resulting from acquisitions
(2) Based on a comparable scope of consolidation and at constant exchange rates

Targets and balance sheet: proper tensions

Chargeurs was overfunded for a while as it was gearing up for focused acquisitions. The good news is that such funds are now at work and successfully so. ROEs will benefit from a reasonable gearing (1.5x EBITDA in 2018). Chargeurs' ROCE took a hit in 2018 as capital employed went up but should be heading back to 15% or more, rapidly enough, as it is confirmed that Chargeurs does not overpay its targets and has deployed the tools and teams to integrate small operations successfully. Spending is easy, integration is another matter; Chargeurs appears to have endowed itself with the right human resources at the operational level. This should help magnify its acquired growth.

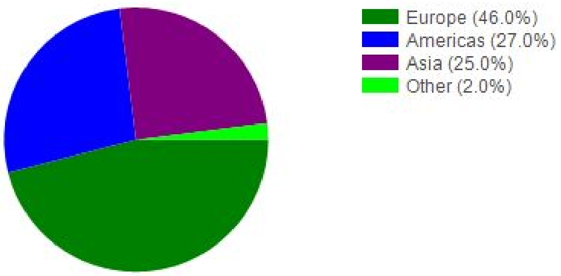
The stated target to reach sales of €1bn by 2021 is a bold challenge as it can only happen through acquisitions. On the simplistic view that extra sales may be acquired at 1.5x (enterprise value), the group may need to buy €300m extra sales over three years at a total cost of €450m. This assumes that organic growth of 5% a year from now would bring total revenues to €720m by 2021.

Obviously €450m for the purpose of acquisitions looks a pretty tall order if we assume that the hands-on management is a feature that can only be deployed on 100%-owned businesses, i.e. no minorities to share the bill. This would be set in the perspective of current shareholders' equity at €237m and a market cap at €500m. The group is targeting a 10% EBITDA return on sales for the expanded group, or €100m, by 2021. Setting this against a target debt/EBITDA of 3x would mean that the group's extra borrowing capability is capped at c.€200m. Reconciling numbers is best left to management when it unveils its next moves but the point is that a €1bn 2021 revenue target will require quite dramatic legwork on the balance sheet side if a recap is best avoided.

Impact

Updating models will amount to trimming 2018 earnings to reflect higher financing and acquisition costs … and no stop of this kind of costs for near-term financial years. They certainly bite into FCF and amount to a higher net debt than we had expected (partly due to negative working capital developments that may not last). It is possible that the status of Chargeurs may move on to become more “growth” with the corresponding risks attached to external growth strategies. Sentiment swings about the stock are bound to be deeper as part of its fast-forward drive.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
NAV/SOTP per share	€ 30.7	55%
Dividend Yield	€ 30.1	20%
DCF	€ 36.0	10%
P/E	€ 38.4	10%
P/Book	€ 15.8	5%
TARGET PRICE	€ 31.1	100%

NAV/SOTP Calculation

Largest comparables

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

Consolidated P&L Accounts

		12/17A	12/18E	12/19E
Sales	€M	533	567	657
Change in sales	%	5.25	6.42	15.8
Change in staff costs	%	12.0	5.91	5.85
EBITDA	€M	54.6	60.0	72.8
EBITDA(R) margin	**%**	**10.6**	**10.9**	**11.3**
Depreciation	€M	-10.2	-11.5	-13.0
Underlying operating profit	€M	44.4	48.5	59.8
Operating profit (EBIT)	**€M**	**38.5**	**43.5**	**54.8**
Net financial expense	€M	-8.50	-9.10	-9.50
of which related to pensions	€M		-0.10	-0.13
Exceptional items & other	€M			
Corporate tax	€M	-4.00	-3.84	-7.46
Equity associates	€M	-0.80	0.50	0.50
Minority interests	€M	0.00	0.00	0.00
Adjusted attributable net profit	**€M**	**25.2**	**31.0**	**38.4**
NOPAT	€M	30.3	34.5	42.5

Cashflow Statement

		12/17A	12/18E	12/19E
EBITDA	€M	54.6	60.0	72.8
Change in WCR	€M	-6.70	1.26	-1.16
Actual div. received from equity holdi...	€M	0.80	0.80	0.50
Paid taxes	€M	-7.00	-3.84	-7.46
Exceptional items	€M			
Other operating cash flows	€M	-4.30	-5.00	-5.00
Total operating cash flows	€M	37.4	53.2	59.7
Capital expenditure	€M	-12.9	-26.0	-21.0
Total investment flows	€M	-17.9	-97.4	-31.0
Net interest expense	€M	-8.50	-9.10	-9.50
Dividends (parent company)	€M	-13.8	-14.0	-16.3
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	7.20	0.00	0.00
Total financial flows	€M	31.3	-37.3	-36.7
Change in cash position	€M	54.1	-81.5	-7.97
Free cash flow (pre div.)	**€M**	**16.0**	**18.1**	**29.2**

Per Share Data

		12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...	Mio	23.3	23.3	23.3
Number of diluted shares (average)	Mio	23.1	23.3	23.3
Benchmark EPS	**€**	**1.09**	**1.33**	**1.65**
Restated NAV per share	€			
Net dividend per share	**€**	**0.60**	**0.70**	**0.80**

Balance Sheet

		12/17A	12/18E	12/19E
Goodwill	€M	86.2	151	156
Total intangible	€M	88.3	153	158
Tangible fixed assets	€M	63.2	85.0	90.0
Financial fixed assets	€M	11.7	12.0	15.0
WCR	€M	21.1	19.8	21.0
Other assets	€M	24.0	27.0	30.0
Total assets (net of short term liab.)	€M	211	300	318
Ordinary shareholders' equity	**€M**	**230**	**248**	**266**
Quasi Equity & Preferred	€M			
Minority interests	€M	0.00	0.00	0.00
Provisions for pensions	€M	16.4	14.6	14.8
Other provisions for risks and liabilities	€M	0.70	1.00	1.00
Total provisions for risks and liabilities	€M	17.1	15.6	15.8
Tax liabilities	€M	-30.3	-30.0	-30.0
Other liabilities	€M	3.10	5.00	5.00
Net debt (cash)	**€M**	**-8.90**	**61.3**	**61.3**
Total liab. and shareholders' equity	€M	211	300	318

Capital Employed

		12/17A	12/18E	12/19E
Capital employed after depreciation	€M	196	282	296

Profits & Risks Ratios

		12/17A	12/18E	12/19E
ROE (after tax)	**%**	**11.0**	**13.0**	**14.9**
ROCE	%	16.0	12.7	14.8
Gearing (at book value)	**%**	**-2.24**	**10.6**	**23.0**
Adj. Net debt/EBITDA(R)	x	0.05	1.19	0.98
Interest cover (x)	x	5.07	5.23	6.16

Valuation Ratios

		12/17A	12/18E	12/19E
Reference P/E (benchmark)	**x**	**20.1**	**17.0**	**12.1**
Free cash flow yield	%	3.13	3.42	6.30
P/Book	x	2.22	2.13	1.74
Dividend yield	**%**	**2.74**	**3.09**	**4.02**

EV Calculation

		12/17A	12/18E	12/19E
Market cap	€M	511	529	464
+ Provisions	€M	17.1	15.6	15.8
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-8.90	61.3	61.3
+ Leases debt equivalent	€M	11.9	11.9	11.9
- 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	519	606	540
EV/EBITDA(R)	**x**	**9.22**	**9.82**	**7.25**
EV/Sales	x	0.97	1.07	0.82

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 29/06/2018.