



# Chargeurs

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## Strong operations confirm regime change

Significant news - 09/03/2018

**Chargeurs released FY 2017 earnings that show a strong operating performance and exude confidence with a dividend at €0.6, above expectations.**

### Fact

Chargeurs has released very satisfactory full-year earnings with a 14% increase to its recurring operating profit, its primary performance metrics. The flat bottom line reflects higher financing costs as the group accumulates dry powder for "niche" acquisitions, primarily in its existing businesses and the fact that the 2016 earnings included a €3.7m positive impact on a disposal.

#### 2017 CONSOLIDATED FINANCIAL HIGHLIGHTS

(in euro millions)	2017	2016	Change	
Revenue	533.0	506.4	+26.6	5.3%
Like-for-like change as a %				+3.2%
EBITDA	54.6	48.8	+5.8	+11.9%
As a % of revenue	10.2%	9.6%		
Recurring operating profit	44.4	38.9	+5.5	+14.1%
As a % of revenue	8.3%	7.7%		
Attributable net profit	25.2	25.0	+0.2	+0.8%

### Analysis

This is the second full financial year after a change of control and change of governance with the ambition to deliver profitable growth from existing assets. The contract with the market has been fulfilled and largely so as it appears that the newly-energised group not only has managed to extract more from previously contracting operations but also set the proper foundations for a healthy, lasting expansion.

By business the surprise, quarter after quarter, comes from Protective Films, the largest profit contributor. This business manages to increase relentlessly its operating margins. At 12.2% in 2017, they are 100bp above last year's level. This improvement is less than seen over H1 (+150bp) but is still very impressive as H2 "suffered" from the US\$ erosion and opex efforts to prepare for long-term growth. The H2 17 operating margin expanded by about 80bp. Such gains reflect the sum of small operating wins through attention to detail and staff commitment, as well as a successful drive to raise the mix. The strong delivery over H2 is pushing back earlier worries that the operating performance has a strong cyclical content and thus dependency. The next two years will be dominated by the ability to grab more of the downstream value added by integrating the protective film laying process, heavy capacity and productivity capex and a continuous drive to raise the mix. The outlook would thus be to have sticking top-notch operating margins.

While on the surface less brilliant, the Fashion Technologies business has expanded its operating margins on flattish sales from a high 2016 base. The building blocks are also in place to shift the business as more of a lasting partner to the fast fashion industry. A change of management in 2018 is expected to be a further catalyst to the move towards more wins in the fashion sector.



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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.

### Add Upside: 4.40%

Target Price (6 months)	€ 26.7
Share Price	€ 25.6
Market Cap. €M	596
Price Momentum	<b>GOOD</b>
Extremes 12Months	18.4 ▶ 28.5
Bloomberg	CRI FP Equity
Reuters	CRIP.PA



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PERF	1w	1m	3m	12m
Chargeurs	4.16%	2.16%	7.49%	32.8%
Other financials	0.63%	1.43%	-0.31%	21.6%
STOXX 600	0.47%	1.03%	-3.24%	1.08%

Last updated: 20/11/2017	12/15A	12/16A	12/17E	12/18E
Adjusted P/E (x)	9.37	9.93	18.0	17.8
Dividend yield (%)	4.61	5.09	3.10	3.13
EV/EBITDA(R) (x)	3.28	5.25	9.78	10.1
Adjusted EPS (€)	0.69	1.09	1.25	1.44
Growth in EPS (%)	26.9	56.8	14.9	14.8
Dividend (€)	0.30	0.55	0.70	0.80
Sales (€M)	499	506	535	567
Underlying operat. profit ma...	6.13	8.06	8.09	8.62
Attributable net profit (€M)	15.3	25.0	29.0	33.5
ROE (after tax) (%)	7.41	11.2	12.4	13.8
Gearing (%)	-7.43	-5.43	-1.95	-0.79

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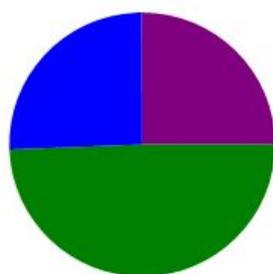
The Technical Substrates business had experienced very strong growth in 2016, which meant that gains in 2017 would be difficult. Still, the division managed to gain 5% on its top line and expand marginally its operating margins to 15.5%. This can be regarded as a success for a newly-minted division (set up in 2015) with a new manager.

The last efforts of the group are to revamp its “Luxury Materials” business that focus on wool trading. Quality control from “the sheep to the shop” is the way forward. The benefits of that extensive control of the supply chain will be visible in the next few years while the 2017 performance (a €2.6m contribution to operating earnings) is primarily measured as a satisfactory return on invested capital.

## ■ Impact

The solid 2017 earnings will probably lead to an upgrade to our earnings forecasts, notably if the ongoing opex effort that prepares for quality growth are being well absorbed as indirectly implied by the good H2 execution. The detailed FY numbers due by the end of March will be the occasion to fine-tune expectations. The share has been plateauing over the last year or so as investors have fully discounted the change of regime. The next step is to price properly management’s ability to deliver on that long-term quality growth.

## 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	535	567
Change in sales	%	1.48	5.66	6.03
Change in staff costs	%	1.43	2.88	3.57
EBITDA	€M	48.8	54.3	60.4
<b>EBITDA(R) margin</b>	<b>%</b>	<b>9.64</b>	<b>10.1</b>	<b>10.6</b>
Depreciation	€M	-9.90	-11.0	-11.5
Underlying operating profit	€M	38.9	43.3	48.9
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>33.9</b>	<b>40.3</b>	<b>45.9</b>
Net financial expense	€M	-2.00	-7.50	-7.10
of which related to pensions	€M	-0.40	-0.08	-0.10
Exceptional items & other	€M			
Corporate tax	€M	-4.90	-3.82	-5.81
Equity associates	€M	-2.00	0.00	0.50
Minority interests	€M	0.00	0.00	0.00
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>25.0</b>	<b>29.0</b>	<b>33.5</b>
NOPAT	€M	24.9	30.4	34.8

## Cashflow Statement

		12/16A	12/17E	12/18E
EBITDA	€M	48.8	54.3	60.4
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	-3.82	-5.81
Exceptional items	€M	0.00		
Other operating cash flows	€M	-8.00	-5.00	-5.00
Total operating cash flows	€M	33.9	45.7	50.1
Capital expenditure	€M	-10.8	-15.0	-26.0
Total investment flows	€M	-31.4	-24.0	-36.0
Net interest expense	€M	-2.00	-7.50	-7.10
Dividends (parent company)	€M	-11.5	-7.00	-16.1
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	0.00	2.30	0.00
Total financial flows	€M	59.9	-23.1	-34.1
Change in cash position	€M	56.4	-1.46	-20.0
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>21.1</b>	<b>23.2</b>	<b>17.0</b>

## Per Share Data

		12/16A	12/17E	12/18E
No. of shares net of treas. stock (year...	Mio	23.0	23.3	23.3
Number of diluted shares (average)	Mio	23.0	23.1	23.3
<b>Benchmark EPS</b>	<b>€</b>	<b>1.09</b>	<b>1.25</b>	<b>1.44</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.55</b>	<b>0.70</b>	<b>0.80</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 27.5	55%	● Akzo Nobel
Dividend Yield	€ 25.8	20%	■ Solvay
DCF	€ 25.4	10%	● Wendel
P/E	€ 31.5	10%	● Bolloré
P/Book	€ 14.7	5%	■ GBL
TARGET PRICE	€ 26.7	100%	■ Sonae
			■ Hal Trust
			● Eurazeo

### 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	69.0	80.0
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	232	251
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>227</b>	<b>240</b>	<b>247</b>
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	10.0	10.0
Total provisions for risks and liabilities	€M	17.2	25.0	25.0
Tax liabilities	€M	-29.0	-30.0	-30.0
Other liabilities	€M	3.10	5.00	5.00
<b>Net debt (cash)</b>	<b>€M</b>	<b>-1.40</b>	<b>-7.94</b>	<b>4.05</b>
Total liab. and shareholders' equity	€M	217	232	251

## Capital Employed

		12/16A	12/17E	12/18E
Capital employed after depreciation	€M	195	201	217

## Profits & Risks Ratios

		12/16A	12/17E	12/18E
<b>ROE (after tax)</b>	<b>%</b>	<b>11.2</b>	<b>12.4</b>	<b>13.8</b>
ROCE	%	12.8	15.1	16.0
<b>Gearing (at book value)</b>	<b>%</b>	<b>-5.43</b>	<b>-1.95</b>	<b>-0.79</b>
Adj. Net debt/EBITDA(R)	x	0.05	-0.15	0.07
Interest cover (x)	x	24.5	5.90	7.06

## Valuation Ratios

		12/16A	12/17E	12/18E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>9.93</b>	<b>18.0</b>	<b>17.8</b>
Free cash flow yield	%	8.50	4.40	2.85
P/Book	x	1.09	2.19	2.41
<b>Dividend yield</b>	<b>%</b>	<b>5.09</b>	<b>3.10</b>	<b>3.13</b>

## EV Calculation

		12/16A	12/17E	12/18E
Market cap	€M	248	526	596
+ Provisions	€M	17.2	25.0	25.0
+ Unrecognised actuarial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	-1.40	-7.94	4.05
+ 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	256	531	613
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>5.25</b>	<b>9.78</b>	<b>10.1</b>
EV/Sales	x	0.51	0.99	1.08