

## An unexpected growth message wrapped in a strong H1

Earnings/sales releases - 27/08/2015

### Fact

Chargeurs delivered a strong set of earnings and firmed up confidence in FY2015. This is half a surprise. The real positive surprise is a new corporate structure aiming at pinpointing its so far hidden growth areas.

Key figures include 5.2% top-line growth to €256.6m H1 sales, a 25% gain at the EBIT and bottom line levels to respectively €14.4m and €8m.

The group remains debt free with a net cash position of €9.8m, while its equity position shoots to €205.6m.

### Analysis

Top-line growth excluding forex is a negative 2.2%, which should not be a worry as it reflects the continuing pruning of not so profitable clients in the Interlining division. As a matter of fact, Chargeurs breaks down its change in turnover into a 3.3% drop in volume nearly matched by a 3% gain in mix/prices (excluding forex). This shows that tighter management of clients (through group-wide implementation of procedures initiated by Protective Film) is paying off handsomely: Chargeurs charges more.

The big piece of news is that Chargeurs puts a positive spin on its corporate story by giving birth to a fourth division dubbed "Technical Substrates". The moniker is rather a dry one to describe technical textiles processed to suit high value demand such as digital printing, special furniture surfacing, surfacing in shows, i.e. where the market seems to be driven by demand rather than by supply of an ever-cheaper, better product. The key word here is growth with a current going rate of +25%/y expected to plateau at 15%. These are great figures in contrast to the historical Interlining business no-growth proposition. Even better, those "Technical Substrates" seem good for 15% operating margins with a floor at 13%. This is quite a departure from the margins of other businesses (below 10%).

That fourth division is extracted from the old Interlining with the new one thus becoming smaller and having to fight even more in its historical textile markets. The underlying growth is still zero to negative but, as pinpointed above, this division has done a good job at fighting for its prices. Its only strategy is to continue to push upmarket even in a context of lower demand from Italian luxury fashion (Russian rouble collapse, anti-graft measures in China, et al.). The impressive achievement is to have extracted a 90bp operating margin gain to 3.5% in this unfriendly context.

Chargeurs' management made it clear that it was looking at this narrowed -down Interlining division with a "strategic review" in mind while not entering into specifics: acquired growth/consolidation of the industry or outright disposal if there was a good price.

Chargeurs Protective Film, still the driving force of the company, has been surfing on strong US operations driven by the construction side and the dollar tailwind. It is pleasing to see that clean operating margins have expanded to 9.6% from 8.6% even though volume gains have been modest and polyethylene suppliers have pushed for extortionate prices at a time when crude prices had roughly halved vs. H1 14. Although 2/3rds of price swings are passed on, the slope of the swing matters. Hopefully that pressure should subside by H2.

The Wool division (limited to trading of combed wool) is seemingly on a lasting profitable path, even though realisation prices (and hence posted revenues) may swing about. The long-term trend seems to be for firming up prices.

All in all Chargeurs is posting an excellent first half and created a small revolution by bringing in the open a growth potential now that it is big enough. Most notably the expanded production capacity for "Technical

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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.

<b>Buy</b>	<b>Upside : 75.4%</b>
Target Price (6 months)	€ 13.2
Share Price	€ 7.55
Market Capitalisation €M	174
Price Momentum	<b>STRONG</b>
Extremes 12Months	4.07 ▶ 7.79
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA


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PERF	1w	1m	3m	12m
Chargeurs	9.42%	-1.95%	9.90%	36.2%
Other financials	-1.19%	-8.26%	-8.31%	10.4%
STOXX 600	-0.97%	-11.0%	-11.9%	2.93%

Last updated: 02/09/2015	12/13A	12/14A	12/15E	12/16E
Adjusted P/E (x)	10.1	9.90	11.6	8.61
Dividend yield (%)	0.00	3.75	3.31	3.97
EV/EBITDA(R) (x)	2.69	3.51	4.40	3.68
Adjusted EPS (€)	0.37	0.54	0.65	0.88
Growth in EPS (%)		45.8	21.1	34.4
Dividend (€)	0.00	0.20	0.25	0.30
Sales (€M)	467	478	500	520
Operating margin (%)	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

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Substrates" should be converted into new sales from 2016.

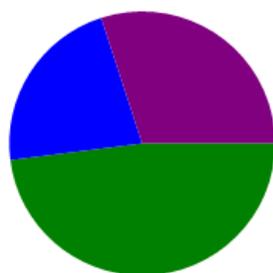
On financials, the group has written off the goodwill related to a 49%-owned Chinese operation and accepted the fact that its better operational outlook warranted writing back some of its enormous tax credits. So that the tax bill is a €6.8m gain in H1. The suspicion is that it may enjoy a low tax rate for some time as a function of its stronger operations. Short term, the 2015 tax credit is a one-off that accrues the potential tax savings attached to future earnings over the next 5 years. That potential is likely to be revised every year on a rolling basis with the impact on the tax credit being much less substantial for a given year.

The outlook for H2 is a confident one with management providing a floor at €26m for its clean operating result. There is a tradition of caution so that the market will go for more. AlphaValue was already discounting an implied €27.2m (we use the EBIT breakdown as opposed to the operating earnings breakdown).

## ■ Impact

We have upgraded our EBIT forecasts by about 9% to reflect stronger operations than foreseen up to now with the "Technical Substrate" division helping somewhat. In addition, the new tax situation whereby tax credits have been recognised for future use against French earnings helps keep a partial lid on that charge.

## 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
<b>EBITDA(R) margin</b>	<b>%</b>	<b>6.61</b>	<b>7.39</b>	<b>7.85</b>
Depreciation	€M	-8.90	-9.50	-10.0
Underlying operating profit	€M	22.7	27.5	30.8
<b>Operating profit (EBIT)</b>	<b>€M</b>	<b>21.4</b>	<b>26.2</b>	<b>29.8</b>
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
<b>Adjusted attributable net profit</b>	<b>€M</b>	<b>11.7</b>	<b>15.0</b>	<b>20.2</b>
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
<b>Free cash flow (pre div.)</b>	<b>€M</b>	<b>13.4</b>	<b>10.9</b>	<b>19.4</b>

## 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
<b>Benchmark EPS</b>	<b>€</b>	<b>0.54</b>	<b>0.65</b>	<b>0.88</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.20</b>	<b>0.25</b>	<b>0.30</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 13.9	55%	■ Akzo Nobel
Dividend Yield	€ 9.41	20%	■ Solvay
DCF	€ 16.3	10%	■ Wendel
P/E	€ 14.2	10%	■ Bolloré
P/Book	€ 12.9	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
<b>Ordinary shareholders' equity</b>	<b>€M</b>	<b>194</b>	<b>225</b>	<b>240</b>
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
<b>Net debt (cash)</b>	<b>€M</b>	<b>-9.30</b>	<b>-14.5</b>	<b>-26.1</b>
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
<b>ROE (after tax)</b>	<b>%</b>	<b>6.14</b>	<b>6.45</b>	<b>8.69</b>
ROCE	%	9.39	4.77	11.9
<b>Gearing (at book value)</b>	<b>%</b>	<b>-3.04</b>	<b>-5.29</b>	<b>-8.49</b>
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
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>9.90</b>	<b>11.6</b>	<b>8.61</b>
Free cash flow yield	%	10.9	6.27	11.2
P/Book	x	0.63	0.77	0.73
<b>Dividend yield</b>	<b>%</b>	<b>3.75</b>	<b>3.31</b>	<b>3.97</b>

## EV Calculation

		12/14A	12/15E	12/16E
Market cap	€M	123	174	174
+ 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	163	150
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>3.51</b>	<b>4.40</b>	<b>3.68</b>
EV/Sales	x	0.23	0.33	0.29

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