

Q3 sales growth where it matters: protective films

Earnings/sales releases - 12/11/2015

Fact

Chargeurs has released its Q3 revenues which are down c.2% to €118m, a retreat on the H1 growth. The 9-month sales growth still stands at 2.8%. The new management since 30/10/2015 took this opportunity to raise its guidance for Chargeurs' recurring operating result from €26m to €27m, a near 4% hike.

Analysis

The slower top-line growth ought not be a subject as it is entirely due to slower revenues (lower \$ prices for wool) at the Wool division with only a limited impact on the bottom line as this is mostly a service-based business.

More interesting is the pursuit of the robust top-line growth of the Protective Film business with a near 10% yoy gain both on the quarter and over 9 months. This business accounts for c. 4/5th of the operating result so that any gain is excellent news. It presumably continues to be supported by the strength of the \$ (say a 16% gain quarter on quarter) that helps when booking US sales (but not profit) but it looks as if volume and mix gains must be in the 5% region which is good for profits.

The Interlining operations show flat quarterly revenues which may actually be good news as the pruning of fragile clients continued. The business appears to have been supported by currency positives as well.

Technical Substrates, the new growth business of Chargeurs (recently spun off from the Interlining operations), shows ... no quarterly growth. This is presumably due to an upgrade in manufacturing capacity that took place over Q3 and may have had a transitory impact on sales.

The new CEO, Mr Fribourg, used the Q3 sales release to confirm the operating strength of Chargeurs with a new guidance of €27m for its recurring operating earnings. That earnings expectations would be raised is half a surprise. This and an interview in the financial media would however suggest a pursuit of the strategy implemented by the previous management team as well as a smooth transfer at the helm. As the change of control was rather unexpected calendar-wise and coming from entirely new quarters (an ad hoc fund, Columbus Holding, has taken over 28% of the previous board members), there was a degree of uncertainty on that front. The words of the new CEO are about continuity, notably on the dividend front.

Impact

We will have to trim the Wool business's contribution to sales, although this is not expected to lead us to slash its contribution to operating earnings. The AlphaValue forecasts for 2015 are already on the high side with a quasi €29m planned as a "recurring" operating result. We stick with this view which underlines the strength of the businesses.

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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.

Buy	Upside : 75.5%
Target Price (6 months)	€ 13.5
Share Price	€ 7.69
Market Capitalisation €M	177
Price Momentum	STRONG
Extremes 12Months	4.47 ▶ 8.30
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

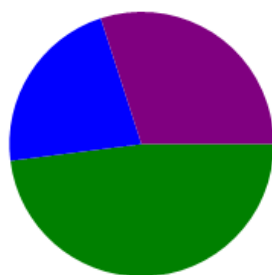

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PERF	1w	1m	3m	12m
Chargeurs	-0.39%	0.13%	2.67%	52.0%
Other financials	-0.71%	2.79%	-7.57%	14.7%
STOXX 600	-0.41%	4.68%	-3.79%	11.7%

Last updated: 02/09/2015	12/13A	12/14A	12/15E	12/16E
Adjusted P/E (x)	10.1	9.90	11.8	8.77
Dividend yield (%)	0.00	3.75	3.25	3.90
EV/EBITDA(R) (x)	2.69	3.51	4.49	3.76
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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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

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

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	€ 10.3	20%	■ Solvay
DCF	€ 16.1	10%	■ Wendel
P/E	€ 15.0	10%	■ Bolloré
P/Book	€ 13.3	5%	■ GBL
TARGET PRICE	€ 13.5	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

Capital employed after depreciation	€M 177	185	186
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Profits & Risks Ratios

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

Reference P/E (benchmark)	x	9.90	11.8	8.77
Free cash flow yield	%	10.9	6.16	10.9
P/Book	x	0.63	0.79	0.74
Dividend yield	%	3.75	3.25	3.90

EV Calculation

Market cap	€M 123	177	177	
+ 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	166	154	
EV/EBITDA(R)	x	3.51	4.49	3.76
EV/Sales	x	0.23	0.33	0.30

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