Chargeurs

Holding Companies / France

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H1: organic growth recovery and a brighter outlook

Earnings/sales releases - 18/09/2019

A return to organic growth in the second quarter and the opening of a sophisticated production line in its Protective Films business has set the stage for a recovery in H2. Chargeurs' continued commitment and keen eye for profitable growth paint an upbeat outlook for 2020, on the way to achieving €1bn turnover by 2021.

Buy	**Upside: 83.5%**
Target Price (6 months)	€ 31.0
Share Price	€ 16.9
Market Cap. €M	391
Price Momentum	**UNFAVORABLE**
Extremes 12Months	14.7 ▶ 22.2
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

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PERF	1w	1m	3m	12m
Chargeurs	6.55%	8.05%	-5.16%	-21.4%
Other financials	1.58%	5.51%	7.47%	14.9%
STOXX 600	0.75%	5.33%	2.87%	2.91%

Last updated: 22/05/2019	12/18A	12/19E	12/20E	12/21E
Adjusted P/E (x)	19.4	14.0	10.1	8.84
Dividend yield (%)	3.01	4.43	5.02	5.32
EV/EBITDA(R) (x)	10.2	8.39	6.57	5.74
Adjusted EPS (€)	1.15	1.21	1.68	1.91
Growth in EPS (%)	5.33	5.31	39.0	14.0
Dividend (€)	0.67	0.75	0.85	0.90
Sales (€M)	573	656	833	1,007
Underlying operat. profit ma...	8.55	8.27	8.91	9.22
Attributable net profit (€M)	26.6	27.8	41.9	51.6
ROE (after tax) (%)	11.4	11.2	13.0	12.7
Gearing (%)	17.6	50.7	37.4	32.6

Company Valuation - Company Financials

Fact

- Chargeurs reported consolidated revenues of €326.1m in H1 19, increasing +13.6% in gross terms and -1.9% lfl. The acquisitions made in 2018, most notably PCC and Leach, largely contributed to the sales boost in the first half.
- The group's EBITDA stood at €32.5m, a +6.2% increase including the +€3.3m effect from IFRS16. On a comparable basis, EBITDA saw a 4.6% decline over H1 18. Nonetheless, cash generation remained strong, reaching €22.8m (+5.1%).
- An increase in opex related to acquisitions and the challenging market conditions in China and Germany for the Protective Films business weighed on the recurring operating profit, which decreased €2.1m to €22.7m.
- The company reiterated its 2021 revenue objective of €1bn, and disclosed for the first time its guidance for 2020: targeting a top-line of €750-800m including future acquisitions. On the operating profitability front, the company expects a recurring operating margin in FY19 above the FY17 level (8.3%), on the way to reaching >10% by 2022.
- CEO Michael Fribourg confirmed the company's long-term commitment via the control of Columbus Holding which stands as Chargeurs' reference shareholder with a 27.6% stake and its active dividend strategy (interim dividend set at €0.2).
- Below is the turnover breakdown by business:

In euro millions	H1 2019	H1 2018	Change 19/18 Reported	Change 19/18 lfl(1)
Protective Films	142.1	150.0	-5.3%	-7.1%
PCC Fashion Technologies	107.7	68.8	+56.5%	+2.3%
Technical Substrates	18.0	14.8	+21.6%	-2.0%
Luxury Materials	58.2	53.5	+8.8%	+7.5%
Chargeurs	**326.1**	**287.1**	**+13.6%**	**-1.9%**

(1) like-for-like: based on a comparable scope of consolidation and at constant exchange rates

Analysis

As Chargeurs strives to promote its keen eye for profitable growth, organic or acquired, it is only fair to promote the reported figures as satisfactory and remind shareholders that the 2018 base was noteworthy for being remarkably high.

It is clear that the slowdown in the European economy, notably in Germany, as well as the trade war with China, has caught up with Chargeurs' Protective Film business as manufacturers postpone/reduce their orders, bracing for tougher times ahead. The quarterly swings in demand hide a more complex set of management decisions whereby the group has had to prepare for the launch of additional capacity and, in parallel, increase specialisation of existing manufacturing sites. This cuts available capacity with decisions here and there not to service the low value segment of demand. This is now behind and the early start of super-efficient new capacity aimed at the premium market should set the business on a very attractive profitable growth path.

In broad terms, H1 in Protective Films suffered more from a short-term blip in demand and ability to service clients than from any pricing pressure. Protective Films should remain the money-spinning business of the group for a long while as it makes a convincing case for leading the industry in terms of innovation, of surfing on end clients' demand for perfect products (hence, the need for protection in all of manufacturing's steps) and quantum progress in terms of emission containment (zero emission on latest new capacity).

While investors' eyes tend to spend too much time on quarterly swings in the Protective Film business, the big H1 positive shall be the complete refoundation of the textile-related business renamed Fashion Technologies. The PCC acquisition is bearing its fruit with a 35% jump in operating earnings. This is entirely driven by the added business which makes the point that well thought out and well prepared large additions to existing assets do pay off. As a reminder, rebranded PCC, Fashion Technologies, is really about servicing the fashion industry as opposed to being only a supplier of high tech interlining.

Also worth a comment on the back of the H1 release is the surprisingly deep business potential that the Technical Substrates unit has come across when it comes to museums as a market for their high-quality backlighted displays. What started as a sideline looks big as museums are more numerous and are moving to being less dusty and more marketing-oriented businesses. Getting business from the Louvre is obviously an industry-wide stamp of quality. The division is finalising three small acquisitions that open up even more the door of the museum business as it supplies design services.

Near-term self-funding ambitions

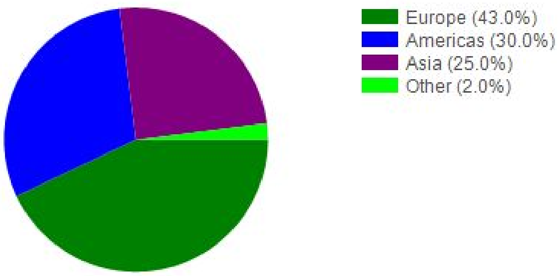
The ambitious target to reach €1bn in revenues in 2021 (but 2022 on a full-year basis) and a 10% underlying EBIT margin has been firmly reassessed and looks increasingly … reasonable. The group has confirmed its firing power by reshaping the long-term credit line commitments of its banks and lenders so that it is free to pounce when it has finalised its many ongoing discussions. As a reminder, it buys low (less than 7x EBIT) as founder-managers are happy to join forces with an industry-driven consolidator.

It looks also as if the existing four businesses offer more than enough potential for acquired growth so that there is no need for a big and riskier deal to add a fifth one. This reasonable growth could be financed in part by debt markets, and particularly by hybrid debt, as the group's respectability is now well established. Therefore, we could consider reviewing the unfolding of a capital increase, which we had anticipated as necessary to avoid a too tight balance sheet.

Impact

We will need to cut our 2019 EPS due to German and Chinese slower demand in H1, marking the more challenging context for Protective Films, but the underlying work to further long-term growth on the different business lines (notably CFT and CTS) while paying out steadily is rather exceptional. This should have a marginal impact on our target price which is dominated by a SOTP which itself is hardly impacted by quarterly revenues. We maintain our positive view on the stock and confirm our Buy recommendation.

Sales by Geography



Valuation Summary

Benchmarks	Value	Weight
NAV/SOTP per share	€ 29.7	55%
Dividend Yield	€ 31.6	20%
DCF	€ 41.0	10%
P/E	€ 33.8	10%
P/Book	€ 18.2	5%
TARGET PRICE	€ 31.0	100%

NAV/SOTP Calculation

Largest comparables

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

Consolidated P&L Accounts

		12/18A	12/19E	12/20E
Sales	€M	573	656	833
Change in sales	%	7.56	14.4	27.0
Change in staff costs	%	33.9	11.5	20.4
EBITDA	€M	59.8	67.3	89.2
EBITDA(R) margin	**%**	**10.4**	**10.3**	**10.7**
Depreciation	€M	-10.8	-13.0	-15.0
Underlying operating profit	€M	48.1	51.6	70.7
Operating profit (EBIT)	**€M**	**42.2**	**45.6**	**63.7**
Net financial expense	€M	-10.6	-12.5	-15.3
of which related to pensions	€M	-0.30	-0.14	-0.22
Exceptional items & other	€M			
Corporate tax	€M	-5.08	-5.74	-7.02
Equity associates	€M	0.10	0.50	0.50
Minority interests	€M	0.00	0.00	0.00
Adjusted attributable net profit	**€M**	**26.6**	**27.8**	**41.9**
NOPAT	€M	34.0	36.7	50.2

Cashflow Statement

		12/18A	12/19E	12/20E
EBITDA	€M	59.8	67.3	89.2
Change in WCR	€M	-22.5	-13.3	-5.00
Actual div. received from equity holdi...	€M	0.00	0.50	0.50
Paid taxes	€M	-6.00	-5.74	-7.02
Exceptional items	€M			
Other operating cash flows	€M	-8.40	-5.00	-5.00
Total operating cash flows	€M	22.9	43.7	72.7
Capital expenditure	€M	-24.3	-20.0	-17.0
Total investment flows	€M	-90.3	-90.0	-87.0
Net interest expense	€M	-10.6	-12.5	-15.3
Dividends (parent company)	€M	-10.8	-15.6	-17.5
Dividends to minorities interests	€M	0.00	0.00	0.00
New shareholders' equity	€M	-10.2	0.00	100
Total financial flows	€M	-42.6	-38.3	62.4
Change in cash position	€M	-110	-84.6	48.1
Free cash flow (pre div.)	**€M**	**-12.0**	**11.2**	**40.4**

Per Share Data

		12/18A	12/19E	12/20E
No. of shares net of treas. stock (year...	Mio	23.1	23.0	27.0
Number of diluted shares (average)	Mio	23.2	23.0	25.0
Benchmark EPS	**€**	**1.15**	**1.21**	**1.68**
Restated NAV per share	€			
Net dividend per share	**€**	**0.67**	**0.75**	**0.85**

Balance Sheet

		12/18A	12/19E	12/20E
Goodwill	€M	128	202	248
Total intangible	€M	158	204	250
Tangible fixed assets	€M	80.7	113	136
Financial fixed assets	€M	13.1	15.0	20.0
WCR	€M	41.7	55.0	60.0
Other assets	€M	23.0	30.0	32.0
Total assets (net of short term liab.)	€M	324	421	504
Ordinary shareholders' equity	**€M**	**237**	**258**	**386**
Quasi Equity & Preferred	€M			
Minority interests	€M	0.00	0.00	0.00
Provisions for pensions	€M	17.4	17.6	17.8
Other provisions for risks and liabilities	€M	0.50	1.00	5.00
Total provisions for risks and liabilities	€M	17.9	18.6	22.8
Tax liabilities	€M	-27.2	-30.0	-30.0
Other liabilities	€M	3.50	5.00	5.00
Net debt (cash)	**€M**	**92.2**	**169**	**119**
Total liab. and shareholders' equity	€M	324	421	504

Capital Employed

		12/18A	12/19E	12/20E
Capital employed after depreciation	€M	294	387	467

Profits & Risks Ratios

		12/18A	12/19E	12/20E
ROE (after tax)	**%**	**11.4**	**11.2**	**13.0**
ROCE	%	11.6	9.47	10.7
Gearing (at book value)	**%**	**17.6**	**50.7**	**37.4**
Adj. Net debt/EBITDA(R)	x	1.54	2.52	1.34
Interest cover (x)	x	4.67	4.21	4.72

Valuation Ratios

		12/18A	12/19E	12/20E
Reference P/E (benchmark)	**x**	**19.4**	**14.0**	**10.1**
Free cash flow yield	%	-2.34	2.89	8.86
P/Book	x	2.17	1.50	1.18
Dividend yield	**%**	**3.01**	**4.43**	**5.02**

EV Calculation

		12/18A	12/19E	12/20E
Market cap	€M	514	388	456
+ Provisions	€M	17.9	18.6	22.8
+ Unrecognised acturial losses/(gains)	€M	0.00	0.00	0.00
+ Net debt at year end	€M	92.2	169	119
+ Leases debt equivalent	€M	0.00	0.00	0.00
- 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	612	564	586
EV/EBITDA(R)	**x**	**10.2**	**8.39**	**6.57**
EV/Sales	x	1.07	0.86	0.70

Analyst : Jorge Velandia, Changes to Forecasts : 22/05/2019.