



Holding Companies / France

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Sparkling H1 results from Protective Film business

Earnings/sales releases - 03/09/2014

Fact

The H1 14 earnings point towards solid margin expansion in the Protective Films division while the other main business Interlining more than resisted on an operational basis although it has been clubbed by the Argentine peso sliding down the drain. The drive for a debt-free balance sheet has been continuing even though the group now feels strong enough to buy back externalised production assets.

Analysis

The Protective Films business is firing on all cylinders and confirms its current stand as the group's earnings driver with a 7.8% gain in revenues (impressive in a flat European GDP context) and a 72% gain at the EBIT level. This implies an 8.5% EBIT margin where our annual expectation was 6.2%. The business is not seasonal but obviously slower in August and December. Still, H2 margins may just happen to keep the high levels reached over H1 as the volume gains pay off in terms of capacity usage. Even though there is a recovery dimension, the operational leverage of stronger volumes is surprisingly high at close to 9x (+72%/+8%). Confidence in the division's profitability has led the company to take full ownership of its production tools. This has already impacted the margins by H1 (lower leasing charges, although the group has to pay for the implied interest charge below the line). The Protective Films business seems to be gaining market share in a context of slow growth. The unit's continuing work to focus on niche markets appears to be paying off.

In its own way, the still battling Interlining division has delivered handsomely with flat revenues lfl (down 5.4% due to the Argentine peso) and EBIT up 40%, if one does not allow for last year's capital gain on disposals. This is commendable. Some of "Interlining" businesses also appear to have in their pipeline interesting and promising opportunities into technical textiles, streets away from the gloom that affects the clothing industries.

Finally the Wool business, turned into a capital-light service business, has not only improved its revenues by 3.3% but also confirmed its EBIT (€1.5m, 2.7% margins) which are better appreciated as a decent return on capital employed.

This divisional progress is positive news. The group indicated a €470m revenue target for this year (we use €475m) and a €19m EBIT (we use €20.5m). Our optimism at this juncture is justified by the confidence that seems to be pervading the group for the next few years.

This is also implied in the decision to buy back rented production assets against a €12.6m consideration. The net debt situation by late June 2014 is thus a marginal net cash position that would have been €13m without the decision to buy back industrial assets. This strong balance sheet is an excellent starting point to invest for growth in the two main industrial businesses.

Impact

The earnings are very satisfactory. The businesses are running healthily even in adverse macro conditions. We were a bit ahead of the game before the H1 earnings and thus only marginally tweak our forecasts. However the breakdown of contributions is substantially modified to allow for the strong run of the Protective Films business while we were clearly too optimistic on the Interlining one. Separately, it is important to pinpoint that the AlphaValue EPSs are always fully diluted ones, i.e. we assume that the last convertibles will be exchanged at maturity (2016) and not bought back.

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 : 95.3%
Target Price (6 months)	€ 10.9
Share Price	€ 5.60
Market Capitalisation €M	84.0
Price Momentum	STRONG
Extremes 12Months	3.84 ▶ 6.10
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

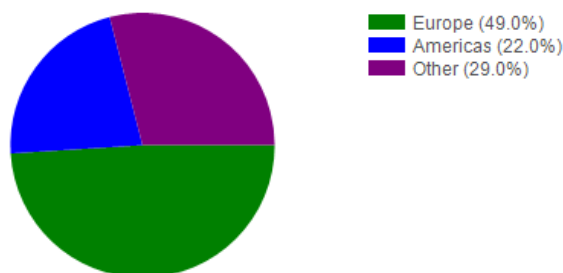

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PERF	1w	1m	3m	12m
Chargeurs	2.00%	8.95%	2.94%	40.0%
Other financials	-1.12%	3.02%	-2.88%	20.0%
STOXX 600	-0.06%	3.27%	-0.68%	13.1%

Last updated: 03/09/2014	12/12A	12/13A	12/14E	12/15E
Adjusted P/E (x)	-9.08	10.0	10.2	7.38
Dividend yield (%)	0.00	0.00	3.57	4.46
EV/EBITDA(R) (x)	6.37	2.69	4.05	3.57
Adjusted EPS (€)	-0.35	0.37	0.55	0.76
Growth in EPS (%)			46.5	38.6
Dividend (€)	0.00	0.00	0.20	0.25
Sales (€M)	525	467	475	495
Operating margin (%)	1.33	3.82	4.31	5.04
Attributable net profit (€M)	-15.1	3.30	11.9	16.7
ROE (after tax) (%)	-6.86	4.50	6.88	9.30
Gearing (%)	30.9	8.82	1.35	3.27

[Company Valuation](#) - [Company Financials](#)

Sales by Geography



Consolidated P&L Account

	12/13A	12/14E	12/15E
Sales	€M 467	475	495
Change in sales	% -11.1	1.87	4.23
Change in staff costs	% -9.93	-3.63	3.74
EBITDA	€M 26.4	31.3	35.0
EBITDA(R) margin	% 7.05	6.59	7.06
Depreciation	€M -8.60	-10.8	-10.0
Underlying operating profit	€M 17.8	20.5	25.0
Operating profit (EBIT)	€M 17.8	20.5	25.0
Net financial expense	€M -6.50	-4.63	-1.90
of which related to pensions	€M	-0.70	-0.63
Exceptional items & other	€M		
Corporate tax	€M -3.70	-4.40	-6.84
Equity associates	€M 0.30	0.40	0.50
Minority interests	€M 0.00	0.00	0.00
Adjusted attributable net profit	€M 3.30	11.9	16.7
NOPAT	€M 12.8	15.2	18.4

Cashflow Statement

	12/13A	12/14E	12/15E
EBITDA	€M 26.4	31.3	35.0
Change in WCR	€M 4.60	-6.50	-6.00
Actual div. received from equity holdi...	€M 0.30	0.40	0.50
Paid taxes	€M -4.00	-4.40	-6.84
Exceptional items	€M 0.00	0.00	0.00
Other operating cash flows	€M -8.90	-5.00	-5.00
Total operating cash flows	€M 18.4	15.8	17.6
Capital expenditure	€M -0.30	-19.6	-8.00
Total investment flows	€M 3.10	-21.6	-11.0
Net interest expense	€M -6.50	-4.63	-1.90
Dividends (parent company)	€M 0.00	0.00	-3.00
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M 1.50	0.00	0.00
Total financial flows	€M -27.3	-27.7	-10.3
Change in cash position	€M -6.50	-33.5	-3.66
Free cash flow (pre div.)	€M 11.6	-8.42	7.71

Per Share Data

	12/13A	12/14E	12/15E
No. of shares net of treas. stock (year...)	Mio 22.9	22.9	22.9
Number of diluted shares (average)	Mio 22.9	22.9	22.9
Benchmark EPS	€ 0.37	0.55	0.76
Restated NAV per share	€		
Net dividend per share	€ 0.00	0.20	0.25

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 12.6	55%	■ Akzo Nobel
Dividend Yield	€ 7.58	20%	■ Solvay
DCF	€ 8.91	10%	■ Wendel
P/E	€ 11.2	10%	■ Bolloré
P/Book	€ 9.47	5%	■ GBL
TARGET PRICE	€ 10.9	100%	■ Sonae
			■ Hal Trust
			■ Eurazeo

NAV/SOTP Calculation

Balance Sheet

	12/13A	12/14E	12/15E
Goodwill	€M 63.8	63.8	63.8
Total intangible	€M 66.3	66.8	66.8
Tangible fixed assets	€M 37.5	40.0	42.0
Financial fixed assets	€M 25.7	26.0	26.0
WCR	€M 20.5	27.0	33.0
Other assets	€M 30.6	30.0	30.0
Total assets (net of short term liab.)	€M 184	194	203
Ordinary shareholders' equity	€M 171	174	185
Quasi Equity & Preferred	€M		
Minority interests	€M 3.30	4.00	4.00
Provisions for pensions	€M 12.7	8.41	8.76
Other provisions for risks and liabilities	€M 0.40	1.00	1.00
Total provisions for risks and liabilities	€M 13.1	9.41	9.76
Tax liabilities	€M -11.9	-12.0	-12.0
Other liabilities	€M 10.6	11.0	11.0
Net debt (cash)	€M -2.50	7.22	4.88
Total liab. and shareholders' equity	€M 184	194	203

Capital Employed

	12/13A	12/14E	12/15E
Capital employed after depreciation	€M 165	164	172

Profits & Risks Ratios

	12/13A	12/14E	12/15E
ROE (after tax)	% 4.50	6.88	9.30
ROCE	% 10.5	9.31	10.7
Gearing (at book value)	% 8.82	1.35	3.27
Adj. Net debt/EBITDA(R)	x 0.38	0.36	0.25
Interest cover (x)	x 2.34	5.23	19.6

Valuation Ratios

	12/13A	12/14E	12/15E
Reference P/E (benchmark)	x 10.0	10.2	7.38
Free cash flow yield	% 13.5	-6.57	6.02
P/Book	x 0.50	0.74	0.69
Dividend yield	% 0.00	3.57	4.46

EV Calculation

	12/13A	12/14E	12/15E
Market cap	€M 85.7	128	128
+ Provisions	€M 13.1	9.41	9.76
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00
+ Net debt at year end	€M -2.50	7.22	4.88
+ Leases debt equivalent	€M 15.0	4.00	4.00
- Financial fixed assets (fair value)	€M 26.0	26.0	26.0
+ Minority interests (fair value)	€M 3.30	4.00	4.00
= EV	€M 88.6	127	125
EV/EBITDA(R)	x 2.69	4.05	3.57
EV/Sales	x 0.19	0.27	0.25

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 03/09/2014.