



Chargeurs^{CR}

Holding Companies / France

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Faster forward

Earnings/sales releases - 23/03/2015

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Fact

The FY2014 earnings delivery is a strong one with operating earnings up 59% to €22.9m on sales up a comparatively modest 2.5%. Net earnings are also well above expectations at €10.8m. Shareholders' equity at €182.6m stands substantially above forecasts as it combines strong earnings and the positive translation impacts of having substantial operations in the \$ area. With a net cash position of €9.3m, Chargeurs is on a very strong footing. This is also confirmed by the payment of a €0.2 dividend, after an 8-year dry season. This obviously is a strong signal coming from a conservative management.

Analysis

The very pleasing dimension in these 2014 earnings is the jump in profitability of the Interlining operations. This was unexpected. It adds to the already good health of the Protective Film unit.

The already successful Protective Film operations have combined continuing volume gains driven by product launches and recovery in the construction business (a primary type of clients) most notably in the US. Volume gains have been compounded in their positive impacts by polyethylene's (an input) declining prices and the strong dollar. Operating margins have shot from 5.6% in 2013 to 8% in 2014. The outlook is for the input effect to be a one-off (in effect polyethylene price swings are passed through) but volume gains and a better mix (new launches) should see operating margins edge up higher by possibly 50-100bp. As a reminder Chargeurs' Protective Films has yet to crack open the potentially huge car market.

Interlining, a long-time victim of extreme competition in the textile industry and the resulting drive for the bottom, price-wise and quality-wise, has managed to buck the trend. In textile interlinings, the shift to lesser volume but higher quality demand seems to have paid off. On top, Interlining appears to have benefited from exploring fresh markets starting with the use of technical textile in advertising usage. This is only beginning and seems to have legs. Interlining's operating margins have more than doubled to 3.6% on ... sales down 3.6% due to the negative impact of being exposed to the Argentine peso. Although management is keen to stress that a lot of work is still needed to capitalise on all the potential provided by technical textile applications, a return to historical operating margins at 5% is no longer out of the question. The question has "only" become: when?

Wool-related operations have also shown a pretty brisk picture in 2014. A sharp increase in volume (up 7%) has offset declining euro prices (down 2%) while the shift to a pure, capital light commercial operation is proving effective in cancelling risks. The 3.2% operating margin recorded in 2014 (vs. 2.1% in 2013) may well be sustainable, provided the fall in crude prices does not increase too quickly the relative competitiveness of chemical fibres (which account already for the bulk of the world's textile consumption).

In 2014, Chargeurs brought down its net debt to €-9m but nevertheless still recorded heavy interest charges on its gross banking debt. This is going to be slashed through renegotiations mostly completed in 2014.

Impact

We are positively impressed by the speed at which Chargeurs is regaining its nominal profit capability. Our earnings need to be cranked up as the holding company is one year ahead of its initial objectives. The going forward will combine presumably a degree of volume gains (QE support to the real world), \$ positives (Protective Films US operations) and possibly a small additional impact from cheaper oil. The enormous discount of the share to its NAV and book value can no longer be justified

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 : 99.5%

Target Price (6 months)	€ 11.5
Share Price	€ 5.74
Market Capitalisation €M	132
Price Momentum	STRONG
Extremes 12Months	4.18 ▶ 6.08
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA

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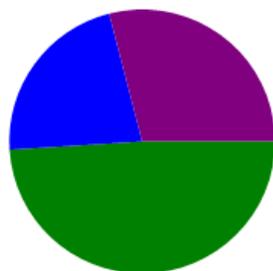
PERF	1w	1m	3m	12m
Chargeurs	-0.69%	3.24%	18.4%	0.53%
Other financials	1.46%	6.86%	18.5%	27.1%
STOXX 600	1.87%	6.22%	18.7%	23.3%

Last updated: 03/09/2014	12/12A	12/13A	12/14E	12/15E
Adjusted P/E (x)	-9.08	10.0	9.74	7.56
Dividend yield (%)	0.00	0.00	3.75	4.36
EV/EBITDA(R) (x)	6.37	2.69	3.85	3.66
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

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by weakish operations. The 100% upside potential has been made relevant by this 2014 recovery.

Sales by Geography



■ Europe (49.0%)
■ Americas (22.0%)
■ Other (29.0%)

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	7.90	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	€ 9.37	20%	■ Solvay
DCF	€ 9.63	10%	■ Wendel
P/E	€ 11.5	10%	● Bolloré
P/Book	€ 10.7	5%	● GBL
TARGET PRICE	€ 11.5	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	9.74	7.56
Free cash flow yield	%	13.5	-6.90	5.87
P/Book	x	0.50	0.70	0.71
Dividend yield	%	0.00	3.75	4.36

EV Calculation

		12/13A	12/14E	12/15E
Market cap	€M	85.7	122	131
+ 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	121	128
EV/EBITDA(R)	x	2.69	3.85	3.66
EV/Sales	x	0.19	0.25	0.26

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