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Baptiste de Leudeville
Equity Research Analyst
+33 1 53 65 36 55
bdeleudeville@keplercheuvreux.com

Chargeurs Buy

France | Support services

MCap: EUR616.9m

Target Price: EUR 30.00
Current Price: EUR 26.42
Up/downside: 13.6%
Market data: 16 September 2021

Bloomberg: CRI FP	Reuters: CRIP.PA
Free float	54%
Avg. daily volume (EURm)	1.4
YTD abs performance	50.1%
52-week high/low (EUR)	26.58/16.00

H1 follow-up. Conference feedback

Speaker:

Olivier Buquen, Group Chief Financial Officer

Key quote:

“Chargeurs is committed to creating value for its shareholders over the long term.”

Temperature

- CFO Olivier Buquen and Head of IR Sebastien Leroy met with more than twenty investors on Tuesday. The management discussed the first-half results, commercial momentum for each business unit, M&A and the surge of raw material prices.

Company's pitch

- The demand for Protective Films is super strong and ensures clear visibility over H2. This is only partly reflected in numbers, as the high price of polyethylene will continue to have a negative effect on the business line's operating margin in H2.
- The management draws a gradual recovery scenario for Fashion Technologies in 2022 based on a full order backlog that grew from the start of the summer onwards and currently exceeds the level of August 2019, before the pandemic.
- The CFO confirms strong appetite from customers (luxury and high-end ready-to-wear brands) for eco-friendly interlinings.
- Chargeurs's available cash position (c. EUR400m) and low indebtedness provides great flexibility to implement the M&A strategy (Chargeurs targets to acquire EUR500m of sales via external growth by 2025).
- The management definitely has a long-term focus. CEO Michaël Fribourg is here for the long term.

What's new?

- The upsurge in polyethylene price (i.e. the key component of protective films) explains the lower margin at Protective Films in H1-21 versus H1-19 prior to the pandemic (8.4% versus 9.9%).
- To mitigate that, Chargeurs has an indexation mechanism with two-thirds of its most important customers, while it can renegotiate “only” gradual price increases. The raw material price increases cannot be passed in full.
- The pressure on margins at Protective Films is expected to be higher in H2. It is due to volumes sold in H2 being made of inflated raw material prices (not the case for the volume sold in H1).
- The management is confident that the polyethylene price situation will converge towards normality. It sees potential to reach 12% EBIT margin at Protective Films on a normative scale in 2022 or 2023.
- Chargeurs is very satisfied with the performance of the “Techno-Smart” line and its impact on productivity and product-mix at Protective Films.
- The group does not rule out significant acquisitions (c. EUR50m sales) alongside small acquisitions (single-digit million sales).
- The management confirms its very high selectivity on potential targets (i.e. healthy but optimisable businesses, identified expertise, culturally-fitted, fairly priced, family-to-family business).
- The travel restrictions linked to the pandemic have made the M&A due diligence process more complicated, but it is getting better now.
- Future acquisitions would consist in pursuing both diversification at Healthcare Solutions and building up Museum Solutions. M&A could be a way to develop further the eco-friendly offering at Protective Films.

Our investment view

- Chargeurs combines sound fundamentals (world-leading positions in niche markets, highly-skilled management, strong M&A track record, self-financing abilities, sustainable dividend policy) and attractive prospects (five-year sales and EBIT CAGRs of +7% and +14% respectively vs. pre-pandemic 2019 levels). Buy.

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Appendix 1: Research framework

Last model update: 26 May 2021

Investment case

- Chargeurs is an industrial conglomerate with world-leading positions in niche markets that are worth EUR0.5-1.0bn (e.g. self-adhesive films for surface protection, interlinings and technical textiles, premium wool trading).
- CEO and reference shareholder Michael Fribourg took over the company in 2015 and reshaped it. The group's portfolio of assets has been strengthened (higher share of services, innovative/sustainable products, more productive industrial facility) making Chargeurs a more diversified, performing and premium business.
- Chargeurs's premiumization and build-up strategy is expected to deliver double digit earnings growth in the next years.

Catalysts

- Recovery of retail-exposed businesses from depressed 2020 levels
- Embedded performance of assets after a sustained investment period (2018-19)
- Selective and stringent M&A strategy

Valuation methodology

- Discounted Cash Flow (8% WACC, 2% g)

Risks to our rating

- Prolongation of COVID-linked restrictions beyond 2021
- Lower-than-expected activity at healthcare Solutions
- M&A execution (inadequate purchasing price, failure in the integration process)

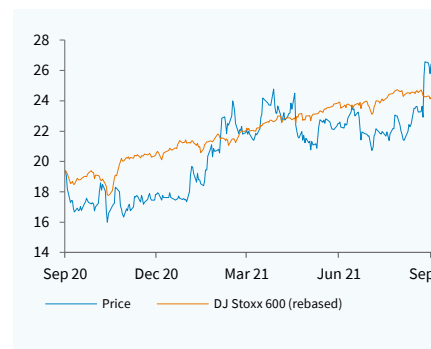
Appendix 2: Company description

- Chargeurs is an industrial conglomerate that has established world-leading positions in niche markets (protective films, interlinings, premium wool trading, services to museums). In 2020, Chargeurs successfully created Healthcare Solutions (CHS) to meet the booming demand for masks during the pandemic.

Management Michaël Fribourg, CEO | Olivier Buquen, CFO | Gustave Gauquelin, COO

Key shareholders Free float: 68.25% | FRIBOURG MICHAEL: 27.01% | Sycomore Asset Management SA: 8.67% | Amundi Asset Management SA (Investment M...): 5.64%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Dominating position in niche markets (EUR0.5-1.0bn market size)
- Differentiated offering (premium products, high quality services)
- Management (long term vision, entrepreneurial approach)
- Self-financing ability

Opportunities

- Fast-growing museum services market
- Development of a platform around healthcare/beauty/hygiene/wellness
- M&A opportunities could arise as the crisis eases
- Growing demand for eco-friendly and sophisticated products

Weaknesses

- Sensitive to economic downturns (construction, apparel sector)

Threats

- Risks linked to the integration of newly-acquired companies
- Extension of the COVID-related restrictions and its impact on retail
- Volatility of raw material price (polyester, polyamides)
- Intensification of the competitive landscape

Appendix 5: Key financials

Last model update: 26 May 2021

Market data date: 16 September 2021

FY to 31/12 (EUR)	12/14	12/15	12/16	12/17	12/18	12/19	12/20	12/21E	12/22E	12/23E
Income Statement (EURm)										
Sales	na	498.7	506.4	533.0	573.3	626.2	822.0	662.4	784.3	843.7
% Change	na	na	1.5%	5.3%	7.6%	9.2%	31.3%	-19.4%	18.4%	7.6%
EBITDA adjusted	na	40.3	48.8	54.6	59.8	59.9	102.4	67.0	83.0	97.2
EBITDA adj. margin (%)	na	8.1%	9.6%	10.2%	10.4%	9.6%	12.5%	10.1%	10.6%	11.5%
EBIT adjusted	na	30.6	38.9	44.4	49.0	41.3	79.3	42.8	58.0	72.3
EBIT adj. margin (%)	na	6.1%	7.7%	8.3%	8.5%	6.6%	9.6%	6.5%	7.4%	8.6%
Net financial items & associates	na	-13.7	-2.5	-8.3	-8.7	-10.2	-6.6	-12.5	-12.5	-12.5
Others	na	-2.3	-1.5	-1.0	-1.8	-1.7	-4.6	-3.0	-3.0	-3.0
Tax	na	7.5	-4.9	-4.0	-5.1	-4.9	-4.3	-2.5	-4.6	-6.5
Net profit from continuing operations	na	15.5	25.0	25.2	26.6	15.0	40.3	16.8	31.0	43.3
Net profit from discontinuing activities	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	na	15.5	25.0	25.2	26.6	15.0	40.3	16.8	31.0	43.3
Net profit reported	na	15.5	25.0	25.2	26.6	15.0	41.0	16.8	31.0	43.3
Net profit adjusted	na	15.5	25.0	25.2	26.6	15.0	41.0	16.8	31.0	43.3
Cash Flow Statement (EURm)										
Levered post tax CF before capex	na	32.4	31.1	30.7	14.4	25.4	73.0	43.0	57.3	68.2
Capex	na	-14.1	-10.9	-13.6	-24.3	-25.3	-14.9	-14.5	-14.8	-15.2
Free cash flow	na	18.3	20.2	17.1	-9.9	0.1	58.1	28.5	42.6	53.0
Acquisitions & divestments	na	1.2	-20.4	-4.3	-66.0	-9.4	-62.0	0.0	0.0	0.0
Dividend paid	na	-3.2	-11.5	-6.6	-10.8	-8.6	-5.9	-30.2	-8.4	-15.5
Others	na	-2.2	-6.0	0.0	-10.2	-19.5	-12.4	-11.2	-11.4	-11.6
Change in net financial debt	na	-14.1	17.7	-6.2	96.9	37.4	22.2	12.9	-22.7	-25.9
Balance Sheet (EURm)										
Intangible assets	na	78.5	92.1	88.3	158.1	173.1	228.7	228.5	228.5	229.5
Tangible assets	na	55.9	61.8	63.2	80.7	113.1	121.2	122.8	124.1	124.8
Financial & other non-current assets	na	47.8	46.8	45.1	52.1	53.8	52.9	52.9	52.9	52.9
Total shareholders' equity	na	222.4	227.3	229.9	237.2	232.4	236.6	223.2	245.8	273.6
Pension provisions	na	14.6	16.7	16.4	17.4	18.3	16.8	16.8	16.8	16.8
Liabilities and provisions	na	263.4	347.3	400.8	371.5	413.3	631.0	643.0	656.1	673.3
Net debt	na	-8.7	13.5	7.5	109.6	167.2	202.0	220.2	202.6	181.7
Net financial debt	na	-23.3	-3.2	-8.9	92.2	122.5	147.1	164.2	145.5	123.5
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	26.4	38.1	39.2	40.3	41.4
Net working capital	na	40.3	43.7	44.6	64.7	73.0	56.0	59.4	63.2	68.2
Invested capital	na	174.7	197.6	196.1	303.5	359.2	405.9	410.7	415.7	422.6
Per share data (EUR)										
EPS adjusted	na	0.79	1.09	1.09	1.14	0.64	1.76	0.72	1.33	1.86
EPS adj and fully diluted	na	0.79	1.09	1.09	1.14	0.64	1.76	0.72	1.33	1.86
% Change	na	na	37.8%	-0.1%	4.7%	-43.6%	173.3%	-59.0%	84.2%	40.0%
EPS reported	na	0.79	1.09	1.09	1.14	0.64	1.76	0.72	1.33	1.86
Cash flow per share	na	1.65	1.35	1.33	0.62	1.09	3.13	1.84	2.45	2.92
Book value per share	na	11.18	9.90	9.93	10.16	9.95	10.17	9.59	10.56	11.75
Dividend per share	na	0.30	0.55	0.60	0.67	0.40	1.32	0.37	0.68	0.95
Number of shares, YE (m)	na	19.62	22.96	23.16	23.35	23.35	23.35	23.35	23.35	23.35
Ratios										
ROE (%)	na	na	11.2%	11.0%	11.4%	6.4%	17.5%	7.3%	13.2%	16.6%
ROIC (%)	na	na	17.7%	19.5%	16.4%	9.5%	18.8%	9.1%	12.2%	15.0%
ND(F+IFRS16) / EBITDA (x)	na	-0.6	-0.1	-0.2	1.5	2.5	1.8	3.0	2.2	1.7
Gearing (%)	na	-10.5%	-1.4%	-3.9%	38.9%	52.7%	62.2%	73.6%	59.2%	45.1%
Valuation										
P/E adjusted	na	11.3	10.4	20.9	20.3	27.3	9.0	36.7	19.9	14.2
P/E adjusted and fully diluted	na	11.3	10.4	20.9	20.3	27.3	9.0	36.7	19.9	14.2
P/BV	na	0.8	1.1	2.3	2.3	1.8	1.6	2.8	2.5	2.2
P/CF	na	5.4	8.3	17.2	37.4	16.1	5.1	14.3	10.8	9.0
Dividend yield (%)	na	3.4%	4.9%	2.6%	2.9%	2.3%	8.3%	1.4%	2.6%	3.6%
FCF yield (%)	na	10.5%	7.8%	3.2%	-1.8%	0.0%	15.7%	4.6%	6.9%	8.6%
EV/Sales	na	0.3	0.5	1.0	1.1	0.9	0.7	1.3	1.0	0.9
EV/EBITDA adj.	na	3.8	5.3	9.6	10.6	9.4	5.5	12.4	9.8	8.1
EV/EBIT adj.	na	4.9	6.6	11.8	13.0	13.7	7.1	19.4	14.0	10.9

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Not Rated/Under Review/Accept Offer	4%	5%
Total	100%	100%

Source: Kepler Cheuvreux

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Chargeurs (EUR)	26/05/2021 07:10	Equity Research	Buy	30.00	20.88

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Local insight, European scale.



Europe

 **Amsterdam**
Kepler Cheuvreux Benelux
Johannes Vermeerstraat 9
1071 DK Amsterdam
+31 20 563 2365

 **London**
Kepler Cheuvreux UK
5th Floor
95 Gresham Street
London EC2V 7NA
+44 20 7621 5100

 **Paris**
Kepler Cheuvreux France
112 Avenue Kleber
75016 Paris
+33 1 53 65 35 00


 **Brussels**
Kepler Cheuvreux Belgium
Rogier Tower
Place Rogier 11
1210 Brussels
+32 11 491460

 **Madrid**
Kepler Cheuvreux Espana
Paseo de la Castellana, 52
28046 Madrid
+34 914 36 5100

 **Stockholm**
Kepler Cheuvreux Sweden
Malmskillnadsgatan 23
11157 Stockholm
+46 8 723 51 00

 **Frankfurt**
Kepler Cheuvreux Germany
Taunusanlage 19
60325 Frankfurt
+49 69 756 960

 **Milan**
Kepler Cheuvreux Italia
Via C. Cornaggia 10
20123 Milan
+39 02 8550 7201

 **Vienna**
Kepler Cheuvreux Austria
Schottenring 16/2
1010 Vienna
+43 1 537 124 147

 **Geneva**
Kepler Cheuvreux SA
Route de Crassier 11
1262 Eysins
Switzerland
+41 22361 5151

 **Oslo**
Kepler Cheuvreux Norway
Filipstad Brygge 1
Pb. 1671 Vika
0120 Oslo
+47 23 13 9080

 **Zurich**
Kepler Cheuvreux Switzerland
Stadelhoferstrasse 22
8001 Zurich
+41 43 333 66 66

North America

 **New York**
Kepler Capital Markets, Inc.
Tower 49
12 East 49th Street, Floor 36
10017 New York, NY USA
+1 212 710 7600