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Chargeurs Buy

France | Support services **MCap: EUR303.8m**

Target Price:	EUR 30.00
Current Price:	EUR 13.01
Up/downside:	130.6%
Market data:	14 September 2022

Bloomberg: CRI FP	Reuters: CRIP.PA
Free float	54%
Avg. daily volume (EURm)	0.8
YTD abs performance	-50.1%
52-week high/low (EUR)	28.94/13.01

On all fronts

Speaker:
Olivier Buquen, CFO and Sebastien Leroy, Head of IR

Key quote:
"Chargeurs has what it takes to face economic volatility while creating value in new businesses."

Temperature

- The management is obviously prudent on the prospects for H2 2022 and 2023, but is definitely confident on the resilience, capacity and sound fundamentals of its traditional businesses, and the execution of its strategy (to build up the museum services, personal care and luxury goods activities).
- During the presentation, the audience was mainly interested in the outlook for the traditional businesses (films and interlinings) amid geopolitical uncertainty and economic volatility, the growth trajectory of Museum Studio, and the potential and strategic relevance of the recent acquisitions (Swaine, Cambridge Satchel, Fournival Altesse, Skira).
- We noted some scepticism/concern from investors about the relevance of the business diversification plan (in the sense that it makes the global strategy less comprehensible and clouds investors' perception of the business); 2) the slower-than anticipated M&A activity (too slow to provide fresh sources of growth in a challenging economic environment); and 3) the timing of the Museum studio ramp-up.

Company's pitch

- In its traditional businesses (films and interlinings), the management is focussing on maintaining operating and financial discipline and further improving the flexibility of the organisation to manage the economic headwinds.
- In the **Advanced Materials** division (formerly protective Films), the stability of the margins in H1 was reassuring and highlights the company's good pricing power in the current inflationary environment and the flexibility of its commercial, industrial and logistics organisation. The efforts made to lower the breakeven point in previous years are paying off now (automation of production lines, workforce flexibility).
- The fundamentals of the business remain solid despite the macroeconomic headwinds (e.g. established global leadership, exposure to premium films, top-notch manufacturing assets, low capex required going forward, large and diversified customer base). The company reported further market share gains too.
- The order backlog (which provides limited visibility for the next 6 to 8 weeks) is decreasing due to lower demand from key sectors (construction, appliances). The commercial is momentum varies depending on the region according to the management (still okay in the US, more difficult in Europe, particularly in Germany). A lack of visibility and macro-related uncertainties prevail at the moment.
- The CFO highlighted the proven robustness of the business in the past even in difficult economic conditions (one-quarter down during the pandemic) and mentioned that the European governments' stimulus plans could support demand.
- The management reiterated its belief that the division could generate a 10-12% EBIT margin in normal conditions.
- In **Museum studio**, the contribution of key museum projects will only show from 2023 and beyond. It would suggest flat commercial momentum for the next 6 to 12 months. During this period, the portion of its business that is linked to events (fairs, retail, exhibitions) is likely to remain weak and will not compensate for the phasing of execution on major museum contracts.
- **Fashion technologies:** the business is doing well as evidenced by the record backlog to date and there are no signs of a slowdown. The visibility on demand beyond two months is virtually zero. The business is exposed to retail fashion and thus to the risk of a recession.

- **M&A**: Chargeurs is loyal to its strategy which is based on selectivity and family-to-family deals. The targets are small, performing businesses that hold valuable assets and niche expertise. The company will stick to this plan, even if it means not achieving the EUR500m of additional revenue expected from external growth.
- The company recognised that given the successive headwinds of Covid and the surge in inflation, the EUR1bn revenue target by 2025 could be difficult to achieve.

What's new?

- No real fresh news emerged from the presentation.

Our investment view

- We like the profile of Chargeurs (conglomerate with world-leading positions in niche markets with premium offering). The CEO and main shareholder, Michaël Fribourg, is here for the long term. His management style combines a sound, coherent, long-term vision with savvy entrepreneurship. Chargeurs has a solid track record when it comes to acquiring and integrating businesses. The company can self-finance its growth while maintaining a sustainable dividend distribution policy (payout of over 50%) and keeping debt under control (maximum 2.5x net debt/EBITDA).
- The stock is being penalised by the macro headwinds and the potential impacts on the traditional cyclical business (films, interlinings). Slow M&A and the phasing of major contracts in Museum studio will not provide a strong engine for growth in the short term. The diversification moves in luxury goods and personal care are also a source of scepticism in a risk-averse environment.

Appendix 1: Research framework

Last model update: 22 February 2022

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.
- Selective and stringent M&A strategy

Valuation methodology

- Discounted Cash Flow (7.9% WACC, 2% g).
- Sum-of-the-parts (applying various EV/EBITDA and EV/EBIT multiples to each division).

Risks to our rating

- High price of polyethylene pressuring margins at CPF.
- 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 succesfully 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: 53.90% | Colombus Holding SAS: 27.10% | Sycomore Asset Management: 8.70% | Amundi: 5.70%

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

Weaknesses

- Sensitive to economic downturns (construction, apparel sector)

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

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: 22 February 2022

Market data date: 14 September 2022

FY to 31/12 (EUR)	12/15	12/16	12/17	12/18	12/19	12/20	12/21	12/22E	12/23E	12/24E
Income Statement (EURm)										
Sales	498.7	506.4	533.0	573.3	626.2	822.0	736.6	781.1	816.1	855.1
% Change	na	1.5%	5.3%	7.6%	9.2%	31.3%	-10.4%	6.0%	4.5%	4.8%
EBITDA adjusted	40.3	48.8	54.6	59.8	59.9	102.4	73.8	80.1	88.7	97.6
EBITDA adj. margin (%)	8.1%	9.6%	10.2%	10.4%	9.6%	12.5%	10.0%	10.3%	10.9%	11.4%
EBIT adjusted	30.6	38.9	44.4	49.0	41.3	79.3	50.7	56.3	64.7	72.9
EBIT adj. margin (%)	6.1%	7.7%	8.3%	8.5%	6.6%	9.6%	6.9%	7.2%	7.9%	8.5%
Net financial items & associates	-13.7	-2.5	-8.3	-8.7	-10.2	-6.6	-9.9	-9.9	-9.9	-9.9
Others	-2.3	-1.5	-1.0	-1.8	-1.7	-4.6	0.0	0.0	0.0	0.0
Tax	7.5	-4.9	-4.0	-5.1	-4.9	-4.3	-0.5	-6.0	-7.2	-8.4
Net profit from continuing operations	15.5	25.0	25.2	26.6	15.0	40.3	30.8	34.5	41.5	48.6
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	15.5	25.0	25.2	26.6	15.0	40.3	30.8	34.5	41.5	48.6
Net profit reported	15.5	25.0	25.2	26.6	15.0	41.0	30.6	34.3	41.3	48.4
Net profit adjusted	15.5	25.0	25.2	26.6	15.0	41.0	30.6	34.3	41.3	48.4
Cash Flow Statement (EURm)										
Levered post tax CF before capex	32.4	31.1	30.7	14.4	25.4	73.0	65.1	56.7	63.8	71.3
Capex	-14.1	-10.9	-13.6	-24.3	-25.3	-14.9	-13.4	-14.2	-14.8	-15.5
Free cash flow	18.3	20.2	17.1	-9.9	0.1	58.1	51.8	42.6	49.0	55.8
Acquisitions & divestments	1.2	-20.4	-4.3	-66.0	-9.4	-62.0	-20.4	0.0	0.0	0.0
Dividend paid	-3.2	-11.5	-6.6	-10.8	-8.6	-5.9	-30.2	-28.4	-22.4	-27.0
Others	-2.2	-6.0	0.0	-10.2	-19.5	-12.4	0.1	-10.3	-10.5	-10.7
Change in net financial debt	-14.1	17.7	-6.2	96.9	37.4	22.2	-1.3	-3.9	-16.1	-18.0
Balance Sheet (EURm)										
Intangible assets	78.5	92.1	88.3	158.1	173.1	228.7	249.1	249.2	249.4	250.5
Tangible assets	55.9	61.8	63.2	80.7	113.1	121.2	111.3	111.9	113.1	114.5
Financial & other non-current assets	47.8	46.8	45.1	52.1	53.8	52.9	52.9	52.9	52.9	52.9
Total shareholders' equity	222.4	227.3	229.9	237.2	232.4	236.6	236.5	241.9	260.3	281.2
Pension provisions	14.6	16.7	16.4	17.4	18.3	16.8	16.8	16.8	16.8	16.8
Liabilities and provisions	263.4	347.3	400.8	371.5	413.3	631.0	550.8	555.5	561.1	567.4
Net debt	-8.7	13.5	7.5	109.6	167.2	202.0	190.7	187.5	172.1	154.8
Net financial debt	-23.3	-3.2	-8.9	92.2	122.5	147.1	146.0	142.8	127.4	110.1
IFRS 16 debt	0.0	0.0	0.0	0.0	26.4	38.1	27.9	27.9	27.9	27.9
Net working capital	40.3	43.7	44.6	64.7	73.0	56.0	34.1	35.6	37.3	39.3
Invested capital	174.7	197.6	196.1	303.5	359.2	405.9	394.5	396.7	399.7	404.3
Per share data (EUR)										
EPS adjusted	0.79	1.09	1.09	1.14	0.64	1.76	1.31	1.47	1.77	2.07
EPS adj and fully diluted	0.79	1.09	1.09	1.14	0.64	1.76	1.31	1.47	1.77	2.07
% Change	na	37.8%	-0.1%	4.7%	-43.6%	173.3%	-25.4%	12.0%	20.7%	17.0%
EPS reported	0.79	1.09	1.09	1.14	0.64	1.76	1.31	1.47	1.77	2.07
Cash flow per share	1.65	1.35	1.33	0.62	1.09	3.13	2.79	2.43	2.73	3.05
Book value per share	11.18	9.90	9.93	10.16	9.95	10.17	10.16	10.39	11.18	12.08
Dividend per share	0.30	0.55	0.60	0.67	0.40	1.32	1.24	0.98	1.18	1.38
Number of shares, YE (m)	19.62	22.96	23.16	23.35	23.35	23.35	23.35	23.35	23.35	23.35
Ratios										
ROE (%)	na	11.2%	11.0%	11.4%	6.4%	17.5%	12.9%	14.3%	16.4%	17.8%
ROIC (%)	na	17.7%	19.5%	16.4%	9.5%	18.8%	12.5%	12.1%	13.8%	15.4%
ND(F+IFRS16) / EBITDA (x)	-0.6	-0.1	-0.2	1.5	2.5	1.8	2.4	2.1	1.8	1.4
Gearing (%)	-10.5%	-1.4%	-3.9%	38.9%	52.7%	62.2%	61.7%	59.0%	48.9%	39.1%
Valuation										
P/E adjusted	11.3	10.4	20.9	20.3	27.3	9.0	17.6	8.9	7.3	6.3
P/E adjusted and fully diluted	11.3	10.4	20.9	20.3	27.3	9.0	17.6	8.9	7.3	6.3
P/BV	0.8	1.1	2.3	2.3	1.8	1.6	2.3	1.3	1.2	1.1
P/CF	5.4	8.3	17.2	37.4	16.1	5.1	8.3	5.4	4.8	4.3
Dividend yield (%)	3.4%	4.9%	2.6%	2.9%	2.3%	8.3%	5.4%	7.5%	9.1%	10.6%
FCF yield (%)	10.5%	7.8%	3.2%	-1.8%	0.0%	15.7%	9.6%	14.0%	16.1%	18.4%
EV/Sales	0.3	0.5	1.0	1.1	0.9	0.7	1.0	0.6	0.6	0.5
EV/EBITDA adj.	3.8	5.3	9.6	10.6	9.4	5.5	9.8	6.0	5.3	4.6
EV/EBIT adj.	4.9	6.6	11.8	13.0	13.7	7.1	14.2	8.6	7.2	6.2

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Total	100%	100%

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