



Chargeurs

Holding Companies / France

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One stone, many great birds

M&A /Corp. Action - 29/06/2018

Chargeurs' first significant acquisition looks to tick all the right boxes: strategically perfect, better use of capital and giving a fresh twist to its hitherto low growth business, Fashion Technologies. The 2019 EPS impact is a 15% upgrade.

Fact

Chargeurs SA opens up its wallet at last and buys for \$66m (EV) an \$80m sales business that dovetails nicely with its existing Fashion Technologies' operations. The deal should complete by Q4 18 and is earnings enhancing from day 1. Fashion Technologies' sales should hit €200m annually with an underlying EBIT seen at €15m, above current EBIT margins of the division.

The acquired business, PCC, is US-based but with 90% of its revenues in Asia. PCC appears to complement the original interlining business of Fashion Technologies by adding new territories but, above all, adding a large service component as its stock in trade. This amounts to being selected as the "prime" contact by a given brand to ensure the timely supply of the various inputs to the actual manufacturers (usually a motley lot). Brand designers indeed rely on subcontractors with frequent issues of quality consistency.

Analysis

There is much to like in this significant transaction. Here is a long list.

- It confirms that the group is sticking to its word of adding to its businesses, managing growth as opposed to rotating away from supposedly dud assets as a traditional holding company would. We like that.

- The PCC acquisition is about shifting business models and top-line synergies by adding a service dimension that reflects on the quick changes of the apparel industry: fast fashion, just in time, strong brands with a worldwide reach. By servicing, rather than just supplying, Chargeurs moves in the right direction and which is already addressed in other divisions (Technical Substrates and Protective Film).

- PCC addresses industry segments (sportswear, underwear) which are a clear addition to its historically more traditional client base.

P. – The geographical spread of the firm, already pretty exceptional for a small industrial conglomerate, is even more anchored in Asia post this deal.

- The price appears to be attractive at 7.5x EBITDA, reflecting management's keen attention on how it deploys its growth.

- The good use of cheap financing that Chargeurs kept as so much dry ammunition for well thought out acquisitions is a mechanical plus.

Impact

The primary impact is mechanically to replace an idle cost of overfinancing by income generating assets. This is quite effective with a 15% uptick to 2019 EPS, the first full year of consolidation of PCC. Then there is the extra growth promises



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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: 18.8%
Target Price (6 months)	€ 30.2
Share Price	€ 25.4
Market Cap. €M	593
Price Momentum	UNFAVORABLE
Extremes 12Months	21.6 ▶ 28.1
Bloomberg	CRI FP Equity
Reuters	CRIP.PA



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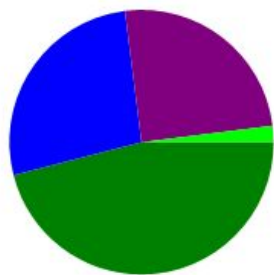
PERF	1w	1m	3m	12m
Chargeurs	10.9%	8.09%	8.39%	6.99%
Other financials	-1.63%	-3.95%	-0.74%	3.47%
STOXX 600	-1.05%	-1.98%	2.06%	-2.32%

Last updated: 29/06/2018	12/16A	12/17A	12/18E	12/19E
Adjusted P/E (x)	9.79	20.4	19.1	15.4
Dividend yield (%)	5.16	2.70	2.76	3.15
EV/EBITDA(R) (x)	5.07	9.35	10.8	8.98
Adjusted EPS (€)	1.09	1.09	1.33	1.65
Growth in EPS (%)	56.8	0.02	22.2	23.7
Dividend (€)	0.55	0.60	0.70	0.80
Sales (€M)	506	533	567	657
Underlying operat. profit ma...	7.68	8.33	8.54	9.11
Attributable net profit (€M)	25.0	25.2	31.0	38.4
ROE (after tax) (%)	11.2	11.0	13.0	14.9
Gearing (%)	-5.43	-2.24	10.6	23.0

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of these complementary assets. This is not allowed for, for the time being. This transaction also contributes to a partial rebalancing of the group with a lesser dependence on the so far remarkable run of Protective Films which accounts for 2/3rds of the group's value. We also take as a positive the ability of the management to balance its growth act carefully. In short, excellent news.

Sales by Geography



Europe	(46.0%)
Americas	(27.0%)
Asia	(25.0%)
Other	(2.0%)

Consolidated P&L Accounts

	12/17A	12/18E	12/19E
Sales	€M 533	567	657
Change in sales	% 5.25	6.42	15.8
Change in staff costs	% 12.0	5.91	5.85
EBITDA	€M 54.6	60.0	72.8
EBITDA(R) margin	% 10.6	10.9	11.3
Depreciation	€M -10.2	-11.5	-13.0
Underlying operating profit	€M 44.4	48.5	59.8
Operating profit (EBIT)	€M 38.5	43.5	54.8
Net financial expense	€M -8.50	-9.10	-9.50
of which related to pensions	€M	-0.10	-0.13
Exceptional items & other	€M		
Corporate tax	€M -4.00	-3.84	-7.46
Equity associates	€M -0.80	0.50	0.50
Minority interests	€M 0.00	0.00	0.00
Adjusted attributable net profit	€M 25.2	31.0	38.4
NOPAT	€M 30.3	34.5	42.5

Cashflow Statement

	12/17A	12/18E	12/19E
EBITDA	€M 54.6	60.0	72.8
Change in WCR	€M -6.70	1.26	-1.16
Actual div. received from equity holdi...	€M 0.80	0.80	0.50
Paid taxes	€M -7.00	-3.84	-7.46
Exceptional items	€M		
Other operating cash flows	€M -4.30	-5.00	-5.00
Total operating cash flows	€M 37.4	53.2	59.7
Capital expenditure	€M -12.9	-26.0	-21.0
Total investment flows	€M -17.9	-97.4	-31.0
Net interest expense	€M -8.50	-9.10	-9.50
Dividends (parent company)	€M -13.8	-14.0	-16.3
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M 7.20	0.00	0.00
Total financial flows	€M 31.3	-37.3	-36.7
Change in cash position	€M 54.1	-81.5	-7.97
Free cash flow (pre div.)	€M 16.0	18.1	29.2

Per Share Data

	12/17A	12/18E	12/19E
No. of shares net of treas. stock (year...)	Mio 23.3	23.3	23.3
Number of diluted shares (average)	Mio 23.1	23.3	23.3
Benchmark EPS	€ 1.09	1.33	1.65
Restated NAV per share	€		
Net dividend per share	€ 0.60	0.70	0.80

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€ 30.7	55%	■ Ackermans & van H...
Dividend Yield	€ 26.1	20%	■ Wacker Chemie
DCF	€ 36.5	10%	● Akzo Nobel
P/E	€ 35.8	10%	■ Solvay
P/Book	€ 17.2	5%	● Bolloré
TARGET PRICE	€ 30.2	100%	● GBL
			■ Sonae
			■ Hal Trust

NAV/SOTP Calculation

Balance Sheet

	12/17A	12/18E	12/19E
Goodwill	€M 86.2	151	156
Total intangible	€M 88.3	153	158
Tangible fixed assets	€M 63.2	85.0	90.0
Financial fixed assets	€M 11.7	12.0	15.0
WCR	€M 21.1	19.8	21.0
Other assets	€M 24.0	27.0	30.0
Total assets (net of short term liab.)	€M 211	300	318
Ordinary shareholders' equity	€M 230	248	266
Quasi Equity & Preferred	€M		
Minority interests	€M 0.00	0.00	0.00
Provisions for pensions	€M 16.4	14.6	14.8
Other provisions for risks and liabilities	€M 0.70	1.00	1.00
Total provisions for risks and liabilities	€M 17.1	15.6	15.8
Tax liabilities	€M -30.3	-30.0	-30.0
Other liabilities	€M 3.10	5.00	5.00
Net debt (cash)	€M -8.90	61.3	61.3
Total liab. and shareholders' equity	€M 211	300	318

Capital Employed

	12/17A	12/18E	12/19E
Capital employed after depreciation	€M 196	282	296

Profits & Risks Ratios

	12/17A	12/18E	12/19E
ROE (after tax)	% 11.0	13.0	14.9
ROCE	% 16.0	12.7	14.8
Gearing (at book value)	% -2.24	10.6	23.0
Adj. Net debt/EBITDA(R)	x 0.05	1.19	0.98
Interest cover (x)	x 5.07	5.23	6.16

Valuation Ratios

	12/17A	12/18E	12/19E
Reference P/E (benchmark)	x 20.4	19.1	15.4
Free cash flow yield	% 3.09	3.05	4.93
P/Book	x 2.25	2.39	2.23
Dividend yield	% 2.70	2.76	3.15

EV Calculation

	12/17A	12/18E	12/19E
Market cap	€M 518	592	592
+ Provisions	€M 17.1	15.6	15.8
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00
+ Net debt at year end	€M -8.90	61.3	61.3
+ Leases debt equivalent	€M 11.9	11.9	11.9
- 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 526	669	669
EV/EBITDA(R)	x 9.35	10.8	8.98
EV/Sales	x 0.99	1.18	1.02

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 29/06/2018.