

Holding Companies / France

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## Solid operations combine with zero debt

Earnings/sales releases - 11/03/2014

### Fact

2013 EBIT at €17.8m stands above our expectations, above consensus views and above management's latest guidance (c. €14m).

Net earnings are back in the black at €3.6m vs. a €15.2m loss last year.

The group has managed a strong performance in a recession context across Europe and adverse currencies in its emerging market operations.

2013 sales, down at €466.5m vs. €523.8m (pro forma, accounting wise), primarily reflect the drop in volumes in the Wool business combined with asset disposals.

Above all, the tight cash management which has been a feature of 2013 continued at a brisk pace with a group net cash position of €3.2m whereas we expected a €13m net debt.

### Analysis

FY 2013 is clearly a positive surprise due to robust operational and financial management over H2. AlphaValue's own 2013 EBIT expectations were regarded as high but we kept these as a confidence indicator in the underlying operations. It so happens that Chargeurs' two main divisions delivered even higher EBITs.

The main operation, Protective Films, has managed to grow its sales from €182m to €191m in an adverse context and to grow its EBIT to €10.8m from €9.5m pro forma. Protective Films appears to have gained market share in Europe, thanks to a combination of steady servicing to industrial customers and innovation. The upside potential for the years ahead is to regain market share in the car sector while any pick up in European construction will also help. It looks as if the decision to focus on the most demanding segments of the market has also helped avoid price-dominated competition.

Interlining, the second largest business, sprung quite a positive surprise with quasi stable EBIT (€5.1m in 2013 vs. €5.3m pro forma in 2012) on turnover down c.2.5% to €173.7m. This is an achievement in a highly competitive textile industry where being a supplier of interlining (a not so visible part of a garment) is not a cozy business. The pruning of clients relying on Chargeurs' balance sheet to get going has had a dramatic impact on the receivables front and thus on profitability. The group has in addition weathered relatively well the currency weaknesses of Brazil and Argentina where it has operations by cranking up prices rapidly.

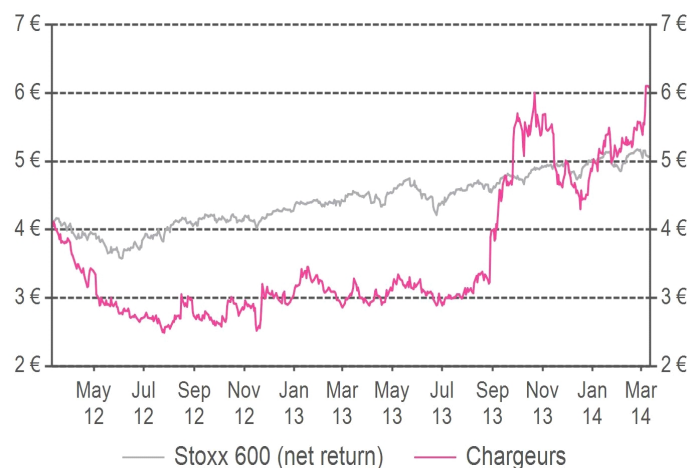
In addition, the Interlining business has recognised that some parts of the business would have to be either sold or wound down. The corresponding costs, €4.6m, have been provisioned, so that 2014 begins with a resolutely clean slate.

The narrowing of the Wool business to the bare bones of what is effectively a raw wool combing capability via equity-held subsidiaries that is no longer tying up any significant working capital has been efficiently implemented. In effect the wool exposure is undemanding while retaining the full upside potential of (ultimately?) stronger demand derived from the shift of wool to luxury status.

Chargeurs management's drive to extract the group from its indebted status reached a final point at the end of 2013 with a net cash position where it started the year with a €33m net debt. This was a surprise and looks like a tour de force achieved through a combination of good WCR control and a systematic review of cash-tying "traps" at the operational level. Needless to say that Chargeurs is now free of the constraints imposed by its bankers five years ago so that it can be entrepreneurial again.

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.

<b>Buy</b>	<b>Upside : 69.8 %</b>
Target Price (6 months)	€ 10.3
Share Price	€ 6.08
Market Capitalisation €M	81.9
Price Momentum	<b>STRONG</b>
Extremes 12Months	2.89 ▶ 6.10
Newsflow	Neutral
Bloomberg	CRI FP Equity
Reuters	CRIP.PA


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PERF	1w	1m	3m	12m
Chargeurs	9.35 %	15.2 %	31.3 %	98.7 %
Other financials	0.26 %	3.26 %	6.36 %	23.4 %
STOXX 600	-1.68 %	1.97 %	5.81 %	12.3 %

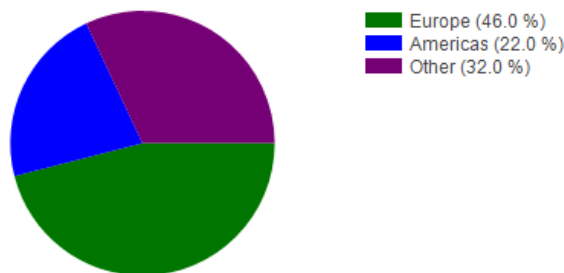
Last updated: 02/09/2013	12/11A	12/12A	12/13E	12/14E
Adjusted P/E (x)	9.91	-8.53	12.9	11.7
Dividend yield (%)	0.00	0.00	0.00	3.29
EV/EBITDA(R) (x)	5.94	6.18	4.10	5.01
Adjusted EPS (€)	0.47	-0.37	0.29	0.52
Growth in EPS (%)	-35.2			78.4
Dividend (€)	0.00	0.00	0.00	0.20
Sales (€M)	552	525	467	485
Operating margin (%)	4.29	1.33	3.75	4.23
Attributable net profit (€M)	10.5	-15.1	5.60	10.5
ROE (after tax) (%)	5.31	-6.86	3.11	5.71
Gearing (%)	35.9	30.9	12.6	6.03

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## ■ Impact

The outlook is rosier than expected as the group starts 2014 on a healthy financial base and rather robust market positions in its three main divisions. The pricing discipline of the previous financial years looks like paying off as underlying demand picks up a bit from a low base. In Interlining in particular, the EBIT margin recovery may be more substantial than originally expected. The benefits of a no debt situation will also impact Chargeur's valuations. AlphaValue expects to increase both the near-term earnings outlook and the target price; both are under review.

## Sales by Geography



## Consolidated P&L Account

	12/12A	12/13E	12/14E
Sales	€M 525	467	485
Change in sales	% -4.96	-11.0	3.85
Change in staff costs	% 1.46	-8.61	0.93
EBITDA	€M 17.6	27.5	30.5
<b>EBITDA(R) margin</b>	<b>% 4.46</b>	<b>7.28</b>	<b>7.63</b>
Depreciation	€M -9.80	-10.0	-10.5
Underlying operating profit	€M 6.60	17.5	20.0
<b>Operating profit (EBIT)</b>	<b>€M 7.00</b>	<b>17.5</b>	<b>20.0</b>
Net financial expense	€M -10.2	-8.00	-6.00
of which related to pensions	€M	-0.72	-0.77
Exceptional items & other	€M 1.30		
Corporate tax	€M -9.20	-2.90	-3.50
Equity associates	€M -1.20	-1.00	0.00
Minority interests	€M -0.60	0.00	0.00
<b>Adjusted attributable net profit</b>	<b>€M -10.8</b>	<b>5.60</b>	<b>10.5</b>
NOPAT	€M 4.68	11.8	14.5

## Cashflow Statement

	12/12A	12/13E	12/14E
EBITDA	€M 17.6	27.5	30.5
Change in WCR	€M 23.1	6.60	-7.00
Actual div. received from equity holdi...	€M 0.90	0.90	0.90
Paid taxes	€M -3.70	-2.90	-3.50
Exceptional items	€M 0.00	0.00	0.00
Other operating cash flows	€M -5.00	-5.00	-5.00
Total operating cash flows	€M 32.9	27.1	15.9
Capital expenditure	€M -2.20	-3.00	-5.50
Total investment flows	€M -2.20	0.00	-7.50
Net interest expense	€M -10.2	-8.00	-6.00
Dividends (parent company)	€M 0.00	0.00	0.00
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M 0.80	0.00	0.00
Total financial flows	€M -48.7	-38.7	-15.2
Change in cash position	€M 2.00	-11.6	-6.83
<b>Free cash flow (pre div.)</b>	<b>€M 20.5</b>	<b>16.1</b>	<b>4.40</b>

## Per Share Data

		12/12A	12/13E	12/14E
No. of shares net of treas. stock (year...)	Mio	21.5	21.5	21.5
Number of diluted shares (average)	Mio	21.5	21.5	21.5
<b>Benchmark EPS</b>	<b>€</b>	<b>-0.37</b>	<b>0.29</b>	<b>0.52</b>
Restated NAV per share	€			
<b>Net dividend per share</b>	<b>€</b>	<b>0.00</b>	<b>0.00</b>	<b>0.20</b>

## Valuation Summary

Benchmarks	Value	Weight	Largest comparables
NAV/SOTP per share	€13.0	55 %	● Akzo Nobel
Dividend Yield	€6.75	20 %	● Solvay
DCF	€6.34	10 %	● Wendel
P/E	€7.25	10 %	● Bolloré
P/Book	€8.96	5 %	● GBL
TARGET PRICE	€10.3	100 %	● Sonae
			● Hal Trust
			● Eurazeo

### NAV/SOTP Calculation

## Balance Sheet

	12/12A	12/13E	12/14E
Goodwill	€M 65.9	64.0	64.0
Total intangible	€M 69.9	70.0	70.0
Tangible fixed assets	€M 47.5	44.0	38.6
Financial fixed assets	€M 24.6	23.0	25.0
WCR	€M 49.6	43.0	50.0
Other assets	€M 28.2	29.0	30.0
Total assets (net of short term liab.)	€M 232	212	218
<b>Ordinary shareholders' equity</b>	<b>€M 180</b>	<b>181</b>	<b>187</b>
Quasi Equity & Preferred	€M		
Minority interests	€M 6.60	6.00	7.00
Provisions for pensions	€M 10.6	11.4	11.4
Other provisions for risks and liabilities	€M 6.00	6.00	6.00
Total provisions for risks and liabilities	€M 16.6	17.4	17.4
Tax liabilities	€M -11.9	-11.9	-11.9
Other liabilities	€M 8.00	7.00	8.00
<b>Net debt (cash)</b>	<b>€M 32.7</b>	<b>12.9</b>	<b>9.71</b>
Total liab. and shareholders' equity	€M 232	212	218

## Capital Employed

	12/12A	12/13E	12/14E
Capital employed after depreciation	€M 237	226	229

## Profits & Risks Ratios

		12/12A	12/13E	12/14E
<b>ROE (after tax)</b>	<b>%</b>	<b>-6.86</b>	<b>3.11</b>	<b>5.71</b>
ROCE	%	3.69	7.23	8.33
<b>Gearing (at book value)</b>	<b>%</b>	<b>30.9</b>	<b>12.6</b>	<b>6.03</b>
Adj. Net debt/EBITDA(R)	x	3.34	1.72	1.49
Interest cover (x)	x	0.70	2.11	3.06

## Valuation Ratios

		12/12A	12/13E	12/14E
<b>Reference P/E (benchmark)</b>	<b>x</b>	<b>-8.53</b>	<b>12.9</b>	<b>11.7</b>
Free cash flow yield	%	30.2	20.0	3.36
P/Book	x	0.38	0.45	0.70
<b>Dividend yield</b>	<b>%</b>	<b>0.00</b>	<b>0.00</b>	<b>3.29</b>

## EV Calculation

	12/12A	12/13E	12/14E	
Market cap	€M 67.8	80.5	131	
+ Provisions	€M 16.6	17.4	17.4	
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00	
+ Net debt at year end	€M 32.7	12.9	9.71	
+ Leases debt equivalent	€M 45.5	45.5	45.5	
- Financial fixed assets (fair value)	€M 24.6	23.0	25.0	
+ Minority interests (fair value)	€M 6.60	6.00	7.00	
= EV	€M 145	139	185	
<b>EV/EBITDA(R)</b>	<b>x</b>	<b>6.18</b>	<b>4.10</b>	<b>5.01</b>
EV/Sales	x	0.28	0.30	0.38

Analyst : Pierre-Yves Gauthier, Changes to Forecasts : 02/09/2013.