

PCAS

France | Chemicals | MCAP EUR 160.6m

04 November 2016

Buy

Target Price	EUR 13.00 (11.00)
Current Price	EUR 11.45
Up/downside	13.5%
Change in TP	18.2%
Change in EPS	none 2016E

Eyes on Q4, TP raised

Lower-than-expected sales in Q3 (flat vs. +6% expected) are due to delays in production. A strong catch-up is expected in Q4. Our FY estimates are left unchanged. We raise TP to EUR13 after our former TP of EUR11 was reached - Buy.

Q3 take-away

PCAS “only” reported stables sales in Q3 (+0.3% QOQ) at EUR33.4m, after double-digit growth in previous quarters (+12.4% in Q1, +10.8% in Q2). The Pharma division was flat at EUR19.6m, much lower than expected (KECH: EUR21.6m, +10%). The Fine Speciality Chemicals segment was roughly flat, as expected (EUR13.8m). After contact with the management, it was confirmed that delays in some investments led to delivery postponements to Q4. We may see a return to double-digit growth in Q4 (KECH: +17% to EUR47.7m). We therefore leave our 2016E estimates unchanged (KECH:EUR196m)

Q3 reported sales vs. estimates

Sales EURm	Q3-16A	Q3-16E	9M-16A	9M-16E
Pharmaceutical synthesis	19.6	21.6	88.2	90.2
Growth% YoY	0.0%	10.0%	10.1%	12.6%
Fine Speciality chemicals	13.8	13.7	45.9	45.8
Growth% YoY	0.7%	0.0%	5.5%	5.3%
Total	33.4	35.3	134.1	136.0
Growth% YoY	0.3%	5.9%	8.5%	10.0%

Source: Kepler Cheuvreux

Why do we raise our TP?

Although the stock may be “overbought” in the short term after a recent rally (+44% YTD), we feel comfortable raising our TP from EUR11 to EUR13.0. Our confidence is based on: 1) the robustness of structural industry drivers (more safety requirements, more complex and costly chemical syntheses, more drugs brought to the market, more labs outsourcing production); 2) a historically high level of demand for PCAS, and we argue the recent facilities shift to full-time production (seven days a week) could unlock unprecedented potential both in terms of revenue and earnings (better optimisation of infrastructure); 3) an undemanding valuation, factoring in a 350bp improvement in EBIT margin (probable scenario) into our DCF (10% WACC) leads to a central value of EUR13. We would also argue that, while it would deserve some liquidity discount, the shares still trade at a 30% discount to peers on average, which could potentially leave room for further appreciation.

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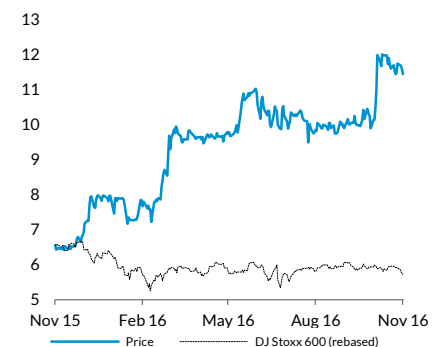
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Market data

	Bloomberg: PCA FP	Reuters: PCAS.PA
Market cap (EURm)		161
Free float		53%
No. of shares outstanding (m)		14
Avg. daily volume (EURm)		0.1
YTD abs performance		43.7%
52-week high/low (EUR)		12.01/6.42

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	195.9	210.0	222.9
EBITDA adj (m)	30.8	34.3	37.9
EBIT adj (m)	19.4	22.1	25.2
Net profit adj (m)	11.2	13.1	15.2
Net fin. debt (m)	30.5	29.7	21.9
FCF (m)	9.9	6.6	16.1
EPS adj. and fully dil.	0.80	0.93	1.08
Consensus EPS	0.80	0.93	1.08
Net dividend	0.12	0.15	0.17

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	14.4	12.3	10.6
EV/EBITDA	6.6	5.9	5.1
EV/EBIT	10.5	9.2	7.7
FCF yield	6.1%	4.1%	10.0%
Dividend yield	1.0%	1.3%	1.5%
Net fin.debt/EBITDA	1.0	0.9	0.6
Gearing	31.1%	27.3%	18.1%
ROIC	10.4%	11.2%	12.0%
EV/IC	1.5	1.4	1.3



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Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	-0.20	0.22	0.27	0.19	0.69	0.82	0.96	1.11
EPS adj and fully diluted	-0.20	0.22	0.27	0.18	0.67	0.80	0.93	1.08
% Change	+chg	+chg	22.9%	-32.0%	269.0%	18.1%	17.0%	16.2%
EPS reported	-0.20	0.22	0.27	0.19	0.69	0.82	0.96	1.11
Cash flow per share	0.41	1.01	1.28	0.87	2.46	1.96	1.79	2.16
Book value per share	5.13	5.26	5.98	5.82	6.41	7.08	7.86	8.77
Dividend per share	0.00	0.00	0.00	0.00	0.06	0.12	0.15	0.17
Number of shares, YE (m)	13.58	13.56	12.98	14.03	14.03	14.03	14.03	14.03
Valuation								
P/E adjusted	na	9.8	12.8	21.4	7.0	14.0	12.0	10.3
P/E adjusted and fully diluted	na	9.9	12.9	22.0	7.2	14.4	12.3	10.6
P/BV	0.5	0.4	0.6	0.7	0.8	1.6	1.5	1.3
P/CF	6.3	2.1	2.7	4.7	2.0	5.9	6.4	5.3
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	1.2%	1.0%	1.3%	1.5%
FCF yield (%)	-8.0%	14.9%	10.6%	3.6%	26.3%	6.1%	4.1%	10.0%
EV/Sales	0.6	0.5	0.6	0.7	0.6	1.0	1.0	0.9
EV/EBITDA	5.3	4.0	5.7	6.3	4.3	6.6	5.9	5.1
EV/EBIT	12.8	7.4	12.2	14.5	7.4	10.5	9.2	7.7
Income Statement (EURm)								
Sales	160.4	171.1	164.9	166.3	179.1	195.9	210.0	222.9
% Change	1.2%	6.7%	-3.6%	0.9%	7.7%	9.4%	7.2%	6.2%
EBITDA adjusted	17.9	22.9	17.8	18.3	27.0	30.8	34.3	37.9
EBITDA margin (%)	11.2%	13.4%	10.8%	11.0%	15.1%	15.7%	16.3%	17.0%
EBIT adjusted	7.5	12.3	8.3	8.0	15.6	19.4	22.1	25.2
EBIT margin (%)	4.7%	7.2%	5.0%	4.8%	8.7%	9.9%	10.5%	11.3%
Net financial items & associates	-2.7	-3.2	-2.7	-2.9	-3.5	-3.5	-3.5	-3.5
Others	-0.6	-0.1	0.0	-0.5	-1.7	0.0	0.0	0.0
Tax	-3.2	-1.0	-0.7	-0.1	-2.1	-4.8	-5.6	-6.5
Net profit from continuing operations	-0.8	6.1	3.4	2.4	9.3	11.2	13.1	15.2
Net profit from discontinuing activities	-2.0	-3.1	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	-2.8	3.0	3.4	2.4	9.3	11.2	13.1	15.2
Net profit reported	-2.8	3.0	3.5	2.6	9.5	11.2	13.1	15.2
Net profit adjusted	-2.8	3.0	3.5	2.6	9.5	11.2	13.1	15.2
Cash Flow Statement (EURm)								
Cash flow from operating activities	5.5	13.7	16.6	11.8	33.6	26.7	24.4	29.4
Capex	-8.3	-9.3	-11.8	-9.8	-15.7	-16.9	-17.8	-13.4
Free cash flow	-2.8	4.4	4.8	2.0	17.9	9.9	6.6	16.1
Acquisitions & Divestments	-0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	-1.6	-2.0	-2.4	-2.8
Others	11.2	11.5	0.6	-2.8	-1.8	-3.5	-3.5	-3.5
Change in net financial debt	8.3	16.0	5.5	-0.8	14.6	4.4	0.8	9.8
Balance Sheet (EURm)								
Intangible assets	20.1	18.7	18.5	17.7	16.9	18.2	19.6	21.0
Tangible assets	59.6	60.7	63.3	64.2	70.7	76.2	81.9	83.6
Financial & other non-current assets	9.5	9.3	7.0	8.4	7.8	7.8	7.8	7.8
Total shareholders' equity	69.2	71.1	78.3	80.2	89.1	98.2	108.9	121.3
Pension provisions	7.1	9.5	8.5	10.6	10.6	10.6	10.6	10.6
Liabilities and provisions	96.9	96.7	93.7	100.0	106.4	104.0	107.2	111.2
Net debt	60.6	62.0	55.5	58.6	45.5	41.1	40.4	33.6
Working capital requirement	47.2	50.9	48.8	52.2	41.3	39.2	42.0	44.6
Invested Capital	127.0	130.3	130.6	134.1	128.8	133.6	143.5	150.1
Ratios								
ROE (%)	-3.9%	4.2%	4.7%	3.3%	11.3%	12.1%	12.8%	13.4%
ROIC (%)	3.9%	6.7%	4.4%	4.2%	8.3%	10.4%	11.2%	12.0%
Net fin. debt / EBITDA (x)	3.0	2.3	2.6	2.6	1.3	1.0	0.9	0.6
Gearing (%)	77.3%	73.8%	60.0%	59.9%	39.1%	31.1%	27.3%	18.1%

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Stock	ISIN	Disclosure (See Below)	Currency	Price
PCAS	FR0000053514	6, 8	EUR	11.45

Source: Factset closing prices of 03/11/2016

Companies mentioned

Stock	Disclosure (See Below)
	nothing to disclose

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Name of the Research Analyst(s) : Baptiste de Leudeville

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Kepler Cheuvreux rating distribution – Q3 2016

Rating breakdown	A	B
Buy	50%	53%
Hold	36%	38%
Reduce	13%	6%
Not Rated/Under Review/Accept Offer	1%	3%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
PCAS (EUR)	22/02/2016 08:04	Equity Research	Buy	11.00	7.90

Credit research does not issue target prices. Left intentionally blank.

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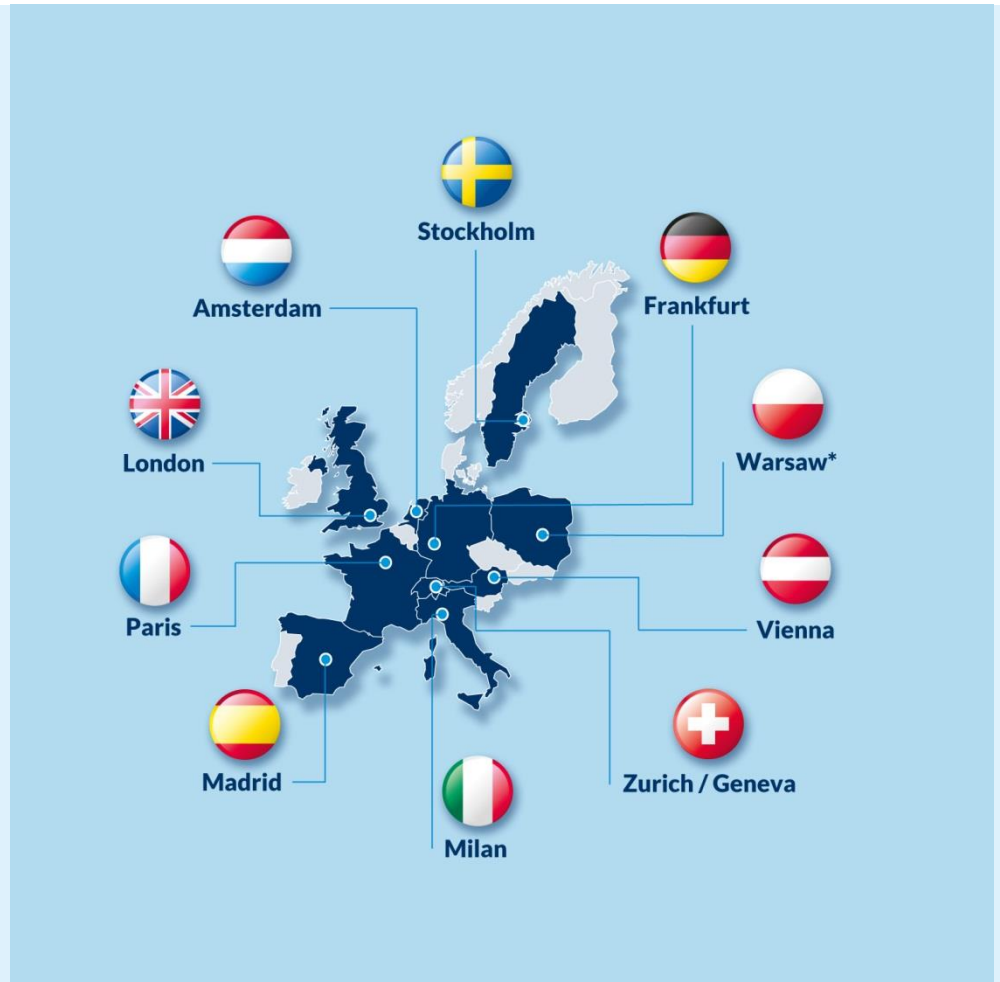
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