

Schaffner Holding AG

Switzerland | Industrial Goods & Services

Guidance update

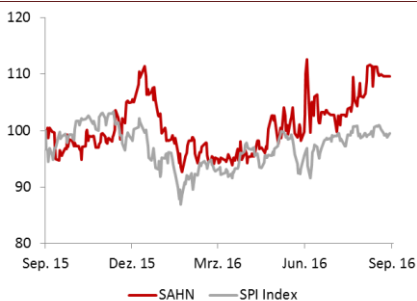
20 September 2016

Company Data

Price:	CHF 240
Market Cap:	CHF 152.6mn
Free Float (% of total shares):	78.5%
No. of shares:	636'000
Avg. traded volume (1 year):	472
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 19 September 2016)

Share Price Movement (Rebased to 100)



Source: Bloomberg

Key Financial Data

	2014	2015	2016E	2017E
Sales	214.6	201.8	189.2	201.0
EBITDA %	10.8%	8.7%	4.2%	8.1%
EBIT %	7.0%	4.4%	0.7%	4.9%
Net Margin %	5.9%	3.1%	0.0%	3.5%
Basic EPS	19.97	9.96	(0.00)	11.19
Diluted EPS	19.86	9.91	(0.00)	11.14
DPS	6.5	6.5	0.0	3.4
Equity Ratio %	43%	40%	39%	43%
Capex	6.4	4.7	6.1	8.1
P/E	14.8	21.4	na	21.5
EV/EBITDA	8.8	8.4	12.5	9.2
P/B	2.8	2.6	2.7	2.4

Next Events

FY2015/16 Annual Results	6 Dec 2016
21 st Annual General Meeting	12 Jan 2017

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Acquisition target omitted, organic growth guidance confirmed under "Strategy 2020"

Schaffner ('the group') is among the leading global players that offer products/solutions ensuring efficient and reliable operations of various electric and electronic systems. The group develops and manufactures products that are used in motor controls, drive systems, the alternative energy sector, rail technology, robots, machine tools, etc., and also supports OEMs and equipment manufacturers to develop and implement energy-efficient systems. Schaffner also manufactures components for keyless entry antennas used in automobiles.

Management maintains Strategy 2020 targets

In a statement issued today, Schaffner confirmed its organic growth and operational targets under its "Strategy 2020", but omitted the potential impact of possible acquisitions from its strategic guidance. The company sees the current market environment as too difficult to plan for a suitable acquisition. We mentioned in our Management change update in July 2016 that the company's current acquisition strategy was looking increasingly unlikely. Thus, we mostly expected the current announcement.

Earlier the company had targeted achieving net sales CHF400mn in 2020 supported by acquisitions in PM and EMC divisions. This included organic growth of more than 5% for the company, driven by >3% organic growth in EMC division, >7% in PM division and >5% in AM division. This organic growth target has been maintained along with EBIT margin target of 8%.

For fiscal 2015/16, the company expects to achieve net sales of more than CHF180mn, unchanged from its investor day update, which is about 11% lower than the CHF201.8mn net sales witnessed in fiscal 2014/15. A 5% compounded organic growth till fiscal 2019/20 would result in net sales of CHF230mn. An EBIT margin of 8%, translates into a EBIT of CHF18.4mn, a CAGR of nearly 16% from 2014/15.

Switch from IFRS to Swiss GAAP FER

In August, Schaffner announced that the company's Board of Directors has decided to switch from the International Financial Reporting Standard (IFRS) to Swiss GAAP FER (FER). The company's consolidated financial statements will be converted with retroactive effect as of the beginning of the financial year on 1 October 2015. As part of the conversion, the goodwill and intangible assets from acquisitions will be offset against shareholders' equity and pension obligations will be revalued. As the table below shows, the company would have reported a profit of CHF0.5mn under the FER accounting method in H1 2015/16, compared to a loss of CHF0.3mn under the IFRS method. The key financial figures under the FER for H1 2015/16 are below.

Exhibit 1: New product introduction schedule

Period	FER	IFRS
H1 2015/16		
Net sales	92.6	92.6
EBIT	1.7	0.5
Net profit	0.5	-0.3
Mar-16		
Intangible assets	1.7	20.7
Shareholders' equity	46.8	55.1

Source: Company reports

Exhibit 3: Schaffner – Comparison with Product peers

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	9.4x	12.5x	9.2x	17.7x	133.6x	17.8x	21.0x	NA	20.3x
Omron Corp	8.8x	8.1x	7.6x	12.2x	12.3x	11.3x	18.1x	19.1x	17.4x
Laird Plc	12.1x	10.2x	8.6x	22.6x	13.4x	11.2x	20.3x	14.3x	11.8x
Yokogawa Electric Corp	9.2x	8.4x	6.8x	14.2x	9.8x	9.7x	20.1x	14.6x	15.1x
Lem Holding SA	13.7x	20.1x	18.7x	16.1x	23.1x	21.3x	18.8x	29.0x	27.1x
Komax Holding AG	10.0x	10.9x	10.3x	12.9x	12.8x	12.0x	15.8x	18.4x	17.0x
Gavazzi Carlo Holding AG	6.1x	6.9x	6.5x	7.4x	8.4x	8.0x	13.9x	14.1x	13.8x
Aparator SA	11.5x	8.7x	8.0x	14.8x	11.6x	10.6x	15.2x	13.1x	11.8x
Median	10.0x	8.7x	8.0x	14.2x	12.3x	11.2x	18.1x	14.6x	15.1x
High	13.7x	20.1x	18.7x	22.6x	23.1x	21.3x	20.3x	29.0x	27.1x
Low	6.1x	6.9x	6.5x	7.4x	8.4x	8.0x	13.9x	13.1x	11.8x
Premium (disc) to product peers	(6%)	43%	14%	24%	985%	59%	16%	NA	35%

Source: Bloomberg (as on 19 September 2016)

Exhibit 4: Schaffner – Comparison with Industry peers

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	9.4x	12.5x	9.2x	17.7x	133.6x	17.8x	21.0x	NA	20.3x
Lem Holding SA	13.7x	20.1x	18.7x	16.1x	23.1x	21.3x	18.8x	29.0x	27.1x
Kudelski SA	8.6x	8.3x	8.1x	15.0x	12.0x	11.9x	16.0x	14.7x	14.1x
Inficon Holding AG	13.5x	12.3x	11.1x	15.2x	14.3x	12.7x	20.8x	19.8x	18.2x
Also Holding AG	6.7x	6.3x	5.4x	8.4x	7.2x	6.0x	10.2x	9.0x	7.4x
Comet Holding AG	13.6x	13.0x	10.2x	19.2x	18.9x	14.6x	26.7x	26.5x	21.3x
Cicor Technologies	8.6x	NA	NA	13.6x	NA	NA	17.2x	NA	NA
Datacolor AG	11.3x	8.9x	NA	15.8x	12.3x	NA	22.8x	19.7x	NA
Median	9.9x	10.6x	10.2x	15.1x	13.3x	12.7x	18.0x	19.7x	18.2x
High	13.7x	20.1x	18.7x	19.2x	23.1x	21.3x	26.7x	29.0x	27.1x
Low	5.9x	6.3x	5.4x	7.3x	7.2x	6.0x	10.2x	9.0x	7.4x
Premium (disc) to Industry peers	(5%)	18%	(9%)	17%	904%	40%	17%	NA	12%

Source: Bloomberg (as on 19 September 2016)

DETAILED FINANCIAL STATEMENTS**Income Statement**

CHF mn (except per share)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
EMC sales	129	106	110	110	95	93	98
PM sales	36	46	54	67	64	54	57
AM sales	18	25	31	37	43	43	46
Sales	183	177	195	215	202	189	201
Cost of goods sold	(126)	(128)	(142)	(152)	(145)	(138)	(143)
Gross profit	56	49	53	63	57	51	58
Marketing and sales	(15)	(17)	(17)	(18)	(18)	(20)	(19)
R& D expenses	(14)	(14)	(15)	(15)	(17)	(18)	(19)
General and administration	(14)	(11)	(10)	(13)	(13)	(12)	(10)
Other income	0	1	0	0	1	0	0
Total operating costs	(43)	(41)	(42)	(47)	(47)	(53)	(48)
EBITA	15	10	12	18	11	7	12
Operating profit (EBIT)	13	7	9	15	9	1	10
Depreciation	3	4	4	4	5	5	5
Amortization of intangible assets	2	3	3	3	3	2	2
EBITDA	19	15	17	23	18	14	19
Finance costs	(13)	(4)	(7)	(7)	(5)	(2)	(1)
Finance income	11	2	5	6	4	1	0
Total financial income (expenses)	(2)	(2)	(2)	(1)	(1)	(1)	(1)
Profit before taxes	11	5	7	14	8	(0)	9
Taxation	(1)	(1)	(1)	(1)	(2)	0	(1)
Profit attributable to the parent	10	4	6	13	6	(0)	7
Basic EPS	16.0	6.2	9.9	20.0	10.0	(0.0)	11.2
Diluted EPS	15.4	6.0	9.9	19.9	9.9	(0.0)	11.1
DPS	4.5	3.5	4.5	6.5	6.5	0.0	3.4

Source: Research Dynamics, Company data

Key Ratios

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Growth Ratios							
Sales Growth	(3%)	(3%)	10%	10%	(6%)	(6%)	6%
EMC division	16%	(18%)	4%	0%	(13%)	(2%)	5%
PM division	(41%)	29%	16%	25%	(5%)	(16%)	7%
AM division	6%	40%	27%	19%	15%	(1%)	8%
Operating profit Growth	(15%)	(43%)	30%	60%	(41%)	(85%)	651%
Net Income Growth	(15%)	(61%)	61%	101%	(50%)	NM	NM
Profitability Ratios (%)							
Operating margin (%)	7%	4%	5%	7%	4%	1%	5%
EMC division (OPM)	16%	12%	13%	14%	9%	8%	7%
PM division (OPM)	(1%)	(1%)	5%	6%	1%	(8%)	2%
AM division (OPM)	(2%)	2%	(6%)	7%	15%	22%	19%
EBITDA Margin %	10%	8%	9%	11%	9%	4%	9%
Net Margin (%)	6%	2%	3.2%	5.9%	3.1%	(0.0%)	3.5%
Return Ratios							
Profit Margin	6%	2%	3%	6%	3%	(0%)	4%
Asset Turnover	1.4x	1.3x	1.4x	1.4x	1.3x	1.3x	1.4x
Financial Leverage	2.3x	2.4x	2.3x	2.3x	2.4x	2.5x	2.4x
Dupont ROE (%)	18%	7%	10%	20%	10%	(0%)	12%
ROCE (%)	23%	8%	11%	16%	10%	1%	11%
ROA (%)	8%	3%	4%	8%	4%	(0%)	5%
Leverage Ratios							
Debt - Equity Ratio	0.6x	0.6x	0.5x	0.5x	0.6x	0.7x	0.5x
Net Debt - Equity Ratio	0.4x	0.4x	0.2x	0.2x	0.3x	0.4x	0.2x
Interest Coverage	14.1x	4.9x	6.5x	15.3x	8.9x	0.5x	6.1x
Liquidity Ratios							
Current Ratio	1.1x	2.2x	2.0x	2.1x	2.5x	2.2x	2.2x
Quick Ratio	0.7x	1.4x	1.4x	1.4x	1.6x	1.5x	1.5x
Valuation Ratios							
EV/EBITDA	9.1x	11.8x	9.1x	8.8x	8.4x	12.5x	9.2x
P/E	14.6x	37.9x	22.8x	14.8x	21.4x	na	19.0x
P/BV	2.6x	2.5x	2.3x	2.8x	2.3x	2.7x	2.4x

Source: Research Dynamics, Bloomberg, Company data

Balance Sheet

In CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Assets							
Non-current assets							
PPE	18.2	21.1	20.9	24.8	22.7	23.9	26.6
Intangible assets	24.1	22.3	19.6	24.1	22.1	20.3	18.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	11.8	13.3	12.5	4.8	2.2	2.2	2.2
Deferred tax	2.7	2.9	3.0	3.7	4.6	5.6	5.6
Total Non Current Assets	56.8	59.6	56.1	57.4	51.7	52.0	52.7
Current assets							
Inventories	29.1	29.9	28.1	31.3	32.0	30.2	31.4
Trade receivables	32.4	34.8	34.0	38.5	34.7	34.7	36.3
Income tax receivables	0.4	0.6	0.5	0.5	0.3	0.4	0.4
Other receivables	3.7	3.7	3.8	3.2	3.0	4.1	4.1
Other financial assets	0.2	2.1	4.1	4.9	5.6	2.0	2.0
Cash and cash equivalents	14.2	10.3	17.0	18.6	19.6	19.5	18.3
Total assets	136.8	140.8	143.7	154.5	146.9	143.1	145.2
Shareholders' Equity and Liabilities							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	40.1	40.3	36.5	35.3	28.4	24.5	24.5
Retained earnings	(3.9)	(0.6)	5.4	10.7	10.4	10.4	17.5
Total equity	56.9	60.3	62.5	66.6	59.4	55.6	62.7
Non-current liabilities							
Long term borrowings	0.4	36.0	29.8	35.1	37.5	34.0	29.5
Deferred tax liabilities	1.9	2.2	2.3	1.2	0.4	0.2	0.2
Provisions	6.6	6.1	5.6	6.1	10.9	11.6	11.6
Total Non-Current Liab.	8.9	44.2	37.6	42.4	48.8	45.9	41.4
Current liabilities							
Trade and other payables	31.0	32.2	40.3	41.9	36.7	35.9	36.0
Income tax liabilities	1.9	1.0	0.7	1.0	1.0	1.0	1.0
Short term borrowings	34.6	0.2	0.5	0.2	0.3	3.8	3.3
Provisions	3.5	2.9	2.0	2.3	0.7	0.9	0.9
Total Current Liabilities	71.0	36.3	43.5	45.4	38.6	41.6	41.2
Total liabilities	79.9	80.5	81.1	87.8	87.4	87.5	82.5
Total equity and liab.	136.8	140.8	143.7	154.5	146.9	143.1	145.2

Source: Research Dynamics, Company data

Cash Flow Statement

<i>In CHF mn</i>	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net profit for the period	10.2	3.9	6.3	12.6	6.3	(0.0)	7.1
Non-cash adjustments:	11.7	9.0	8.8	9.1	14.6	7.4	7.1
Change in current assets and liabilities:							
(Increase)/decrease in inventories	0.3	0.0	1.3	(1.2)	(2.5)	1.8	(1.2)
(Increase)/decrease in receivables	6.4	(3.5)	(0.0)	(0.8)	2.5	1.3	(1.6)
(Decrease)/increase in current liabilities	(3.5)	(0.4)	9.0	(0.2)	(3.5)	(0.7)	0.1
Change in operating working capital	3.2	(3.9)	10.3	(2.2)	(3.6)	2.5	(2.7)
Cash flows from operating activities	17.8	4.6	20.8	15.3	8.2	9.9	11.5
Purchase of PPE	(6.9)	(3.7)	(4.8)	(6.4)	(4.7)	(6.1)	(7.7)
Disposal of PPE	0.2	1.4	0.3	0.3	0.3	-	-
Purchase of intangible assets	(1.4)	(0.7)	(0.4)	(0.4)	(0.8)	-	-
(Acquisition)/divestment	(10.6)	(0.4)	(0.4)	(8.6)	-	-	-
Change in other assets	(0.0)	(0.0)	(0.9)	(0.7)	(0.7)	-	-
Cash flow generated (used) in investment activities	(18.7)	(3.4)	(6.2)	(15.8)	(5.9)	(6.1)	(7.7)
Change in treasury shares	(7.3)	(1.0)	(1.1)	(3.1)	(0.9)	0.3	-
Proceeds from Share issues	4.4	0.5	1.2	2.7	1.3	-	-
Repayment of excess share premium	(2.8)	(2.8)	(2.2)	(2.9)	(4.1)	(4.1)	-
Net proceeds/(repayment) from debt	13.4	(1.8)	(5.5)	5.2	2.9	-	(5.0)
Amortization related to finance lease	-	(0.1)	(0.2)	(0.2)	(0.2)	-	-
Cash flow generated (used) in financing	7.6	(5.3)	(7.7)	1.8	(1.0)	(3.9)	(5.0)
Exchange (losses)/gains	(0.5)	0.2	(0.2)	0.3	(0.4)	0.1	-
Net change in cash	6.2	(4.0)	6.8	1.6	1.0	(0.1)	(1.2)
Opening cash balance	8.1	14.2	10.3	17.0	18.6	19.6	19.5
Closing cash balance	14.2	10.3	17.0	18.6	19.6	19.5	18.3

Source: Research Dynamics, Company data

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