

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## 1H 2014 earnings update

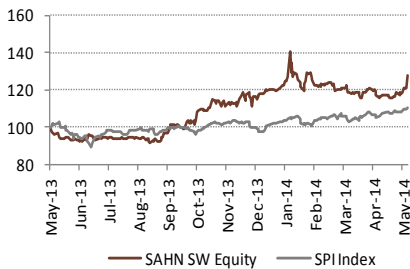
14 May 2014

### Company Data

Price:	CHF 283
Market Cap:	CHF 180mn
Free Float:	100%
No. of shares:	635'940
Avg. traded volume (1 year):	1,083
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: SIX Swiss Exchange

### Share Price Development



### Key Financial Data

	2012	2013	2014e	2015e
Sales	176.9	194.9	221.7	227.7
EBITDA %	8.3	8.8	10.4	13.1
EBIT %	4.1	4.8	7.4	9.9
Net Margin %	2.2	3.2	5.5	7.6
Basic EPS	6.2	9.9	19.2	27.3
Diluted EPS	6.0	9.9	19.1	27.2
DPS	3.5	4.5	5.8	8.2
Equity Ratio %	43.0	44.0	46	51
Capex	4.4	5.2	8.3	9.1
P/E	37.9x	22.8x	14.8x	10.2x
EV/EBITDA	11.8x	9.1x	8.4x	6.3x
EV/EBIT	24.0x	16.6x	11.8x	8.3x

### Next Events

Investor day	12 June 2014
FY2014 results	9 Dec 2014

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## Strategy implementation bearing fruit

Schaffner ('the group') is a market leader in the fields of electromagnetic compatibility (EMC) and power quality. The group's products such as filters, transformers, and chokes help eliminate electrical distortions, thus improving the reliability of electronic equipments and stabilizing power grids. Schaffner also manufactures components for keyless entry antennas used in automobiles as well as filters for electric vehicles. The group recorded sales of CHF195mn and had 2,817 employees as of FY2013, which ended September 30.

### Comprehensive guidance beat

Schaffner has comprehensively beaten its own guidance for 1H2014 (guidance given on 21 February 2014). The group reported sales of CHF 102.6 million as against the guidance of CHF 100 million. Operating margin came in at 4.8%, indicating a 308 bps expansion over 1H2013, and in-line with guidance. It is worth noting that the group's P&L includes only minimal contributions from the Trencos acquisition completed on 31 March 2014, however, acquisition-related costs of CHF 0.6 million have already been absorbed during 1H2014. This strategically important acquisition has catapulted the PM division to the third position in global ranking with annualized revenues of about CHF 73 million and will contribute about CHF 6-7.5 million to FY 2014 revenues (Trencos 2013 sales amounted to CHF 12 million).

### Solid execution leads to improved operating performance

Schaffner Group reported a robust set of numbers for 1H2014. The company recorded a 14.5% increase (15.9% in local currencies) in sales to reach CHF 102.6 million. This growth was driven by a 27.6% and 18.6% growth in Power Magnetics (PM) and Automotive divisions, which grew to CHF 30.8 million and CHF 18.1 million respectively. The revenue growth was also supported by 7% growth in the largest EMC division (52% of revenue). The overall robust performance can be attributed to cyclical recovery in Europe. This semester was also a testimony to the company's solid execution of its margin expansion strategy. The company reported a 308 bps y/y improvement in its EBIT margin to 4.8% in 1H2014. All the segments witnessed an expansion in operating margin: EMC's margin expanded 470 bps to 13.5%, PM's margin grew 216 bps to 5.6%, while Automotive turned positive in this semester.

The group's profitability benefitted from the improved utilization coupled with operation excellence. Profitability at the Automotive division improved as a few major projects entered series production, which had caused high development costs last year. The positive operating performance trickled down to the next level as the group reported a net profit of CHF 3.2 million, as against CHF 0.2 million in 1H 2013. This supports our conviction that the management's efforts to deliver profitable growth have begun to bear fruit. Our optimism is further enhanced by the ongoing improvement in the economic fundamentals of the US and Europe.

### No changes to our forecasts

The group has updated its guidance for FY2014 and now expects its revenue growth to be between 10-15% (as against 10% y/y earlier), and also sees an improvement in its EBIT margin (FY2013: 4.8%). As far as our estimates are concerned, we are retaining our forecasts at the same level (updated post-Trencos acquisition) and expect a full year sales growth of 13.8% at the top end of the guided range. We are increasingly confident about the company's ability to post robust results given the company's proven strategy execution. Our EBIT margin estimate for the full year is 7.4% (up 255bps y/y), as we expect the ongoing operational excellence to further boost Schaffner's profitability in 2HFY2014.

### Trading at a significant discount to its peers

Schaffner currently trades at an attractive discount of 12%, 7% and 14% on EV/EBITDA, EV/EBIT and P/E basis to its product peers, respectively. Similarly, the stock trades at a discount of 26%, 24% and 29% on EV/EBITDA, EV/EBIT and P/E basis to its industry peers, respectively. Given the expected robust growth in sales and expanding operating margins, we believe a discount to its peers is unwarranted.

**Exhibit 1: Schaffner – Comparison with Product peers**

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
Schaffner Holding AG	7.5x	7.8x	6.2x	10.9x	10.7x	8.2x	13.5x	13.3x	10.1x
Omron Corp	6.0x	7.3x	6.8x	9.9x	9.7x	9.3x	14.2x	15.7x	14.5x
Laird Plc	7.1x	0.1x	0.1x	10.3x	0.1x	0.1x	10.8x	14.9x	13.1x
Ablarex Electronics Co Ltd	NA	NA	NA	NA	NA	NA	13.3x	NA	NA
Rongxin Power Electronic	16.7x	28.1x	21.5x	20.3x	30.7x	27.5x	18.5x	38.4x	24.7x
Yokogawa Electric Corp	7.7x	8.8x	7.6x	11.8x	12.6x	10.3x	17.3x	17.9x	14.3x
Lem Holding SA	10.3x	12.3x	NA	12.3x	14.5x	NA	17.3x	18.7x	17.4x
Komax Holding AG	6.1x	7.9x	7.2x	8.5x	9.7x	8.7x	11.7x	13.2x	12.0x
Gavazzi Carlo Holding AG	3.7x	6.4x	6.1x	5.0x	7.9x	7.3x	9.3x	13.0x	11.9x
Eaton Corp Plc	8.5x	11.8x	10.3x	10.9x	15.4x	12.9x	12.0x	15.4x	13.2x
Cosmo Ferrites Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Apator SA	8.7x	10.0x	NA	11.0x	11.5x	NA	12.9x	13.8x	NA
Median	7.7x	8.8x	7.2x	10.9x	11.5x	9.3x	13.1x	15.4x	13.7x
High	16.7x	28.1x	21.5x	20.3x	30.7x	27.5x	18.5x	38.4x	24.7x
Low	3.7x	0.1x	0.1x	5.0x	0.1x	0.1x	9.3x	13.0x	11.9x
Premium (disc) to product peers	(2%)	(12%)	(14%)	0%	(7%)	(12%)	3%	(14%)	(26%)

Source: Bloomberg (as on 13 May 2014)

**Exhibit 2: Schaffner – Comparison with Industry peers**

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E	3 year average	CY2014E	CY2015E
Schaffner Holding AG	7.5x	7.8x	6.2x	10.9x	10.7x	8.2x	13.5x	13.3x	10.1x
Lem Holding SA	10.3x	12.3x	NA	12.3x	14.5x	NA	17.3x	18.7x	17.4x
Kudeški SA	5.9x	6.9x	6.3x	12.5x	11.8x	10.4x	12.7x	14.7x	12.5x
Inficon Holding AG	8.2x	13.4x	12.9x	9.7x	15.6x	15.2x	14.8x	20.5x	19.4x
Also Holding AG	6.0x	NA	NA	7.5x	NA	NA	11.1x	NA	NA
Comet Holding AG	6.5x	10.5x	9.7x	11.1x	14.0x	12.9x	13.5x	19.7x	17.3x
Cicor Technologies	4.3x	NA	NA	7.6x	NA	NA	8.2x	6.4x	NA
Elma Electronic AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Datacolor AG	5.3x	8.9x	NA	7.7x	11.6x	NA	13.7x	NA	NA
Infranor Inter AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Median	6.0x	10.5x	9.7x	9.7x	14.0x	12.9x	13.5x	18.7x	17.4x
High	10.3x	13.4x	12.9x	12.5x	15.6x	15.2x	17.3x	20.5x	19.4x
Low	4.3x	6.9x	6.3x	7.5x	11.6x	10.4x	8.2x	6.4x	12.5x
Premium (disc) to Industry peers	25%	(26%)	(36%)	13%	(24%)	(36%)	(0%)	(29%)	(42%)

Source: Bloomberg (as on 13 May 2014)

## DETAILED FINANCIAL STATEMENTS

## Income Statement

CHF mn (except per share)	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
EMC sales	82	111	129	106	110	113	117
PM sales	43	61	36	46	54	73	82
AM sales	8	17	18	25	31	36	41
<b>Sales</b>	<b>133</b>	<b>189</b>	<b>183</b>	<b>177</b>	<b>195</b>	<b>222</b>	<b>241</b>
Cost of goods sold	(98)	(130)	(126)	(128)	(142)	(153)	(163)
<b>Gross profit</b>	<b>35</b>	<b>59</b>	<b>56</b>	<b>49</b>	<b>53</b>	<b>68</b>	<b>79</b>
Marketing and sales	(15)	(16)	(15)	(17)	(17)	(21)	(22)
R&D expenses	(12)	(13)	(14)	(14)	(15)	(19)	(21)
General and administration	(12)	(15)	(14)	(11)	(10)	(11)	(11)
Other income	0	0	0	1	0	0	0
Total operating costs	(43)	(44)	(43)	(41)	(42)	(51)	(54)
						17	24
Profit before amortization of customer relations	(9)	16	13	8	10		
Amortization of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT)</b>	<b>(9)</b>	<b>15</b>	<b>13</b>	<b>7</b>	<b>9</b>	<b>16</b>	<b>23</b>
Depreciation	3	3	3	4	4	4	5
Amortization of intangible assets	2	2	2	3	3	1	1
<b>EBITDA</b>	<b>(3)</b>	<b>21</b>	<b>19</b>	<b>15</b>	<b>17</b>	<b>23</b>	<b>31</b>
Finance costs	(5)	(4)	(13)	(4)	(7)	(1)	(1)
Finance income	3	1	11	2	5	0	0
Total financial income (expenses)	(2)	(3)	(2)	(2)	(2)		
Profit before taxes	(12)	12	11	5	7	15	22
Taxation	1	(0)	(1)	(1)	(1)	(3)	(4)
Profit attributable to the parent	(11)	12	10	4	6	12	18
Basic EPS	(18.0)	18.9	16.0	6.2	9.9	19.2	27.8
<b>Diluted EPS</b>	<b>(18.0)</b>	<b>18.7</b>	<b>15.4</b>	<b>6.0</b>	<b>9.9</b>	<b>19.1</b>	<b>27.6</b>
DPS	0.0	4.5	4.5	3.5	4.5	5.8	8.3

Source: Research Dynamics, Company data

Note: The group reorganized its divisional reporting structure in FY2011; numbers for FY2009 and FY2010 are not restated.

## Balance Sheet

CHF mn	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
<b>Assets</b>							
Non-current assets							
PPE	13.9	14.9	18.2	21.1	20.9	24.2	26.7
Intangible assets	15.8	14.8	24.1	22.3	19.6	19.0	19.2
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	13.1	12.2	11.8	13.3	12.5	12.5	12.5
Deferred tax	0.6	2.2	2.7	2.9	3.0	3.0	3.0
Total Non Current Assets	43.5	44.1	56.8	59.6	56.1	58.7	61.5
Current assets							
Inventories	25.4	31.1	29.1	29.9	28.1	35.7	37.9
Trade receivables	21.4	36.9	32.4	34.8	34.0	42.5	46.2
Income tax receivables	1.1	0.8	0.4	0.6	0.5	0.5	0.5
Other receivables	4.9	5.7	3.7	3.7	3.8	3.8	3.8
Other financial assets	0.0	0.0	0.2	2.1	4.1	4.1	4.1
Cash and cash equivalents	30.6	8.1	14.2	10.3	17.0	10.2	12.8
<b>Total assets</b>	<b>126.9</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>155.5</b>	<b>166.8</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	50.4	47.1	40.1	40.3	36.5	33.6	30.0
Retained earnings	(23.8)	(11.8)	(3.9)	(0.6)	5.4	17.6	35.2
Total equity	47.3	56.0	56.9	60.3	62.5	71.8	85.8
Non-current liabilities							
Long term borrowings	0.0	18.1	0.4	36.0	29.8	31.8	27.3
Deferred tax liabilities	3.7	2.7	1.9	2.2	2.3	2.3	2.3
Provisions	6.3	7.1	6.6	6.1	5.6	5.6	5.6
Total Non-Current Liab.	10.0	27.9	8.9	44.2	37.6	39.7	35.2
Current liabilities							
Trade and other payables	21.3	34.3	31.0	32.2	40.3	37.8	40.1
Income tax liabilities	0.8	1.9	1.9	1.0	0.7	0.7	0.7
Short term borrowings	42.5	1.7	34.6	0.2	0.5	3.5	3.0
Provisions	5.0	4.9	3.5	2.9	2.0	2.0	2.0
Total Current Liabilities	69.6	42.8	71.0	36.3	43.5	44.0	45.8
Total liabilities	79.6	70.7	79.9	80.5	81.1	83.7	81.0
<b>Total equity and liab.</b>	<b>126.9</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>155.5</b>	<b>166.8</b>

Source: Research Dynamics, Company data

## Cash Flow Statement

CHF mn	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Net profit for the period	(10.9)	12.0	10.2	3.9	6.3	12.2	17.6
Non-cash adjustments:	9.2	7.2	4.4	4.6	4.2	5.7	6.3
<b>Change in current assets and liabilities:</b>							
(Increase)/decrease in inventories	3.9	(8.0)	0.3	0.0	1.3	(7.6)	(2.2)
(Increase)/decrease in receivables	18.9	(19.7)	6.4	(3.5)	(0.0)	(8.5)	(3.7)
(Decrease)/increase in current liabilities	(5.3)	15.9	(3.5)	(0.4)	9.0	(2.5)	2.3
Change in operating working capital	17.5	(11.9)	3.2	(3.9)	10.3	(18.6)	(3.6)
<b>Cash flows from operating activities</b>	15.8	7.4	17.8	4.6	20.8	(0.7)	20.4
Purchase of PPE	(3.0)	(5.3)	(6.9)	(3.7)	(4.8)	(7.7)	(7.5)
Disposal of PPE	0.1	0.2	0.2	1.4	0.3	-	-
Purchase of intangible assets	(2.3)	(1.4)	(1.4)	(0.7)	(0.4)	(0.6)	(1.6)
(Acquisition)/divestment	(2.3)	(0.0)	(10.6)	(0.4)	(0.4)	-	-
Change in other assets	0.1	0.6	(0.0)	(0.0)	(0.9)	-	-
<b>Cash flow generated (used) in investment activities</b>	(7.3)	(6.0)	(18.7)	(3.4)	(6.2)	(8.3)	(9.1)
Change in treasury shares	3.8	(1.1)	(7.3)	(1.0)	(1.1)	-	-
Proceeds from Share issues	-	0.2	4.4	0.5	1.2	-	-
Repayment of excess share premium	(2.1)	-	(2.8)	(2.8)	(2.2)	(2.9)	(3.7)
Net proceeds/(repayment) from debt	(6.4)	(22.9)	13.4	(1.8)	(5.5)	5.0	(5.0)
Amortization related to finance lease	-	-	-	(0.1)	(0.2)	-	-
<b>Cash flow generated (used) in financing</b>	(4.7)	(23.8)	7.6	(5.3)	(7.7)	2.1	(8.7)
Exchange (losses)/gains	(0.1)	(0.1)	(0.5)	0.2	(0.2)	-	-
<b>Net change in cash</b>	<b>3.7</b>	<b>(22.6)</b>	<b>6.2</b>	<b>(4.0)</b>	<b>6.8</b>	<b>(6.9)</b>	<b>2.6</b>
Opening cash balance	26.9	30.6	8.1	14.2	10.3	17.0	10.2
<b>Closing cash balance</b>	<b>30.6</b>	<b>8.1</b>	<b>14.2</b>	<b>10.3</b>	<b>17.0</b>	<b>10.2</b>	<b>12.8</b>

Source: Research Dynamics, Company data

## Key Ratios

	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
<b>Growth Ratios</b>							
Sales Growth	(27%)	42%	(3%)	(3%)	10%	14%	9%
EMC division	(38%)	35%	16%	(18%)	4%	3%	4%
PM division	9%	43%	(41%)	29%	16%	35%	13%
AM division	(21%)	99%	6%	40%	27%	15%	15%
Operating profit Growth	NM	NM	(15%)	(43%)	30%	74%	42%
Net Income Growth	NM	NM	(15%)	(61%)	61%	94%	45%
<b>Profitability Ratios (%)</b>							
Operating margin (%)	(7%)	8%	7%	4%	5%	7%	10%
EMC division (OPM)	0%	16%	16%	12%	13%	15%	17%
PM division (OPM)	(0%)	5%	(1%)	(1%)	5%	8%	8%
AM division (OPM)	9%	9%	(2%)	2%	(6%)	1%	8%
EBITDA Margin %	(2%)	11%	10%	8%	9%	10%	13%
Net Margin (%)	(8%)	6%	6%	2%	3%	5%	7%
<b>Return Ratios</b>							
Profit Margin	(8%)	6%	6%	2%	3%	5%	7%
Asset Turnover	1.0x	1.5x	1.4x	1.3x	1.4x	1.5x	1.5x
Financial Leverage	2.6x	2.5x	2.3x	2.4x	2.3x	2.2x	2.0x
Dupont ROE (%)	(21%)	23%	18%	7%	10%	18%	22%
ROCE (%)	(18%)	21%	23%	8%	11%	17%	21%
ROA (%)	(8%)	9%	8%	3%	4%	8%	11%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.9x	0.4x	0.6x	0.6x	0.5x	0.5x	0.4x
Net Debt - Equity Ratio	0.3x	0.2x	0.4x	0.4x	0.2x	0.4x	0.2x
Interest Coverage	(4.2x)	12.1x	14.1x	4.9x	6.5x	11.0x	16.4x
<b>Liquidity Ratios</b>							
Current Ratio	1.2x	1.9x	1.1x	2.2x	2.0x	2.2x	2.3x
Quick Ratio	0.8x	1.2x	0.7x	1.4x	1.4x	1.4x	1.5x
<b>Valuation Ratios</b>							
EV/EBITDA	NM	13.8x	9.1x	11.8x	9.1x	8.4x	6.3x
P/E	NM	23.2x	14.6x	37.9x	22.8x	14.8x	10.2x
P/BV	2.3x	5.0x	2.6x	2.5x	2.3x	2.5x	2.1x

Source: Research Dynamics, Bloomberg, Company data

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