

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## Guidance update

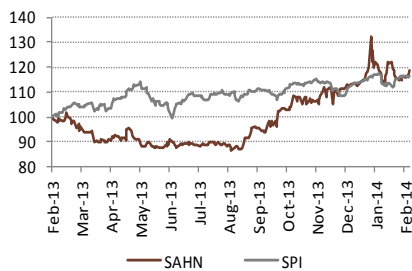
21 February 2014

### Company Data

Price:	CHF 272
Market Cap:	CHF 173mn
Free Float:	100%
No. of shares:	635'940
Avg. traded volume (1 year):	880
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	209.9	227.7
EBITDA %	8.3	8.8	10.4	13.1
EBIT %	4.1	4.8	7.3	9.9
Net Margin %	2.2	3.2	5.5	7.6
Basic EPS	6.2	9.9	18.1	27.3
Diluted EPS	6.0	9.9	18.0	27.2
DPS	3.5	4.5	5.4	8.2
Equity Ratio %	43.0	44.0	50.0	55.0
Capex	4.4	5.2	8.3	9.1
P/E	11.8x	32.2x	15.3x	10.1x
EV/EBITDA	11.8x	12.2x	8.6x	6.3x
EV/EBIT	24.0x	16.6x	12.3x	8.4x

### Next Events

1HFY2014 results	13 May 2014
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## Guidance confirms positive trend

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. The group recorded sales of CHF195mn and had 2,817 employees as of FY2013 which ended September 30.

### 1HFY2014 key data guidance

Schaffner today, in its preliminary guidance update for 1HFY2014, said that it expects net sales to grow by around 12% y/y to over CHF100mn and EBIT margin to expand by 300bps y/y to around 4.8%. The company confirmed that all divisions have done well so far, and expects 1HFY2014 results to be driven by growth across the board. For FY2014, the company guided for a sales growth of 10% y/y and expects EBIT margin to improve y/y (EBIT margin in FY2013: 4.8%).

The guidance is encouraging, especially as this follows the strong performance in 2HFY2013 (sales growth of 10% y/y, and EBIT margin expansion of 130bps y/y and 560bps h/h to 7.4%). This supports our conviction that the management's efforts to deliver profitable growth have started to bear fruit. Our optimism is further enhanced by the ongoing improvement in the economic fundamentals of the US and Europe. We expect full year sales growth of around 8%, lower than the company's guidance of 10%. The conservative estimate is mainly attributable to the ongoing volatility in the emerging market currencies. Our EBIT margin estimate for the full year is 7.3% (up 250bps y/y) as we expect the ongoing operational excellence to boost profitability in 2HFY2014.

### Still trading at a discount to its peers

Since our initiation in the month of December 2013, the stock has gained by around 8% and has outperformed the broader SPI Index by 2ppts. This performance can largely be attributed to the improved investor sentiment after the strong 2HFY2013 results. Despite this, Schaffner still trades at an attractive discount of 18%, 21% and 28% on EV/EBITDA, EV/EBIT and P/E basis to its product peers, respectively. Similarly, the stock trades at a discount of 17%, 15% and 20% 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	CY2013E	CY2014E	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E
Schaffner Holding AG	8.0x	9.5x	7.9x	11.0x	16.0x	11.0x	13.6x	21.3x	12.5x
Omron Corp	6.2x	5.1x	8.7x	9.7x	7.0x	11.4x	13.6x	21.3x	18.1x
Laird Plc	6.8x	7.8x	0.1x	9.8x	11.1x	0.1x	9.9x	15.2x	13.0x
Ablerex Electronics Co Ltd	NA	NA	NA	NA	NA	NA	13.3x	NA	NA
Rongxin Power Electronic	18.2x	28.4x	23.6x	18.4x	44.1x	33.9x	19.3x	26.3x	18.0x
Yokogawa Electric Corp	7.5x	8.0x	9.6x	11.7x	12.8x	13.9x	17.9x	30.2x	20.2x
Lem Holding SA	10.2x	11.2x	12.1x	11.9x	13.5x	14.2x	16.6x	21.9x	20.9x
Komax Holding AG	6.8x	5.0x	8.0x	8.5x	6.3x	9.7x	11.6x	16.0x	12.8x
Gavazzi Carlo Holding AG	4.0x	5.4x	5.9x	4.6x	6.6x	7.2x	8.9x	13.5x	12.0x
Eaton Corp Plc	8.6x	10.8x	11.6x	10.3x	16.4x	14.5x	11.9x	17.5x	15.0x
Cosmo Ferrites Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Aparator SA	9.1x	10.3x	12.5x	11.2x	12.8x	15.5x	13.0x	17.7x	17.2x
Median	7.5x	8.0x	9.6x	10.3x	12.8x	13.9x	13.2x	17.7x	17.2x
High	18.2x	28.4x	23.6x	18.4x	44.1x	33.9x	19.3x	30.2x	20.9x
Low	4.0x	5.0x	0.1x	4.6x	6.3x	0.1x	8.9x	13.5x	12.0x
Premium (disc) to product peers	6%	18%	(18%)	7%	25%	(21%)	4%	20%	(28%)

Source: Bloomberg (as on 20 February 2014)

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

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E	3 year average	CY2013E	CY2014E
Schaffner Holding AG	8.0x	9.5x	7.9x	11.0x	16.0x	11.0x	13.6x	21.3x	12.5x
Lem Holding SA	10.2x	11.2x	12.1x	11.9x	13.5x	14.2x	16.6x	21.9x	20.9x
Kudelski SA	6.3x	5.6x	6.8x	12.6x	10.3x	11.7x	12.6x	17.4x	13.5x
Inficon Holding AG	7.9x	8.5x	13.7x	9.0x	10.0x	15.5x	14.1x	23.1x	18.8x
Also Holding AG	5.6x	NA	NA	7.3x	NA	NA	11.0x	NA	NA
Comet Holding AG	6.5x	5.2x	9.5x	10.9x	7.6x	12.9x	12.9x	19.5x	14.7x
Cicor Technologies	4.6x	NA	NA	7.6x	NA	NA	8.3x	8.8x	6.4x
Elma Electronic AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Datacolor AG	5.9x	6.4x	9.4x	7.3x	8.4x	12.3x	12.6x	NA	16.5x
Infranor Inter AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Median	6.3x	6.4x	9.5x	9.0x	10.0x	12.9x	12.6x	19.5x	15.6x
High	10.2x	11.2x	13.7x	12.6x	13.5x	15.5x	16.6x	23.1x	20.9x
Low	4.6x	5.2x	6.8x	7.3x	7.6x	11.7x	8.3x	8.8x	6.4x
Premium (disc) to industry peers	27%	47%	(17%)	22%	60%	(15%)	8%	9%	(20%)

Source: Bloomberg (as on 20 February 2014)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

<i>CHF mn (except per share)</i>	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
EMC sales	82	111	129	106	110	113	117
PM sales	43	61	36	46	54	61	69
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>210</b>	<b>228</b>
Cost of goods sold	(98)	(130)	(126)	(128)	(142)	(145)	(153)
<b>Gross profit</b>	<b>35</b>	<b>59</b>	<b>56</b>	<b>49</b>	<b>53</b>	<b>65</b>	<b>75</b>
Marketing and sales	(15)	(16)	(15)	(17)	(17)	(20)	(21)
R& D expenses	(12)	(13)	(14)	(14)	(15)	(18)	(20)
General and administration	(12)	(15)	(14)	(11)	(10)	(10)	(11)
Other income	0	0	0	1	0	0	0
Total operating costs	(43)	(44)	(43)	(41)	(42)	(48)	(51)
Profit before amortization of customer relations	(9)	16	13	8	10	16	24
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>15</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>22</b>	<b>30</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)	(1)	(1)
Profit before taxes	(12)	12	11	5	7	14	22
Taxation	1	(0)	(1)	(1)	(1)	(3)	(4)
Profit attributable to the parent	(11)	12	10	4	6	11	17
Basic EPS	(18.0)	18.9	16.0	6.2	9.9	18.1	27.3
<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>18.0</b>	<b>27.2</b>
DPS	0.0	4.5	4.5	3.5	4.5	5.4	8.2

Source: Research Dynamics, Company data

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

### Balance Sheet

<i>CHF mn</i>	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	33.8	35.7
Trade receivables	21.4	36.9	32.4	34.8	34.0	40.3	43.7
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	1.6	4.4
<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>142.8</b>	<b>153.7</b>
Shareholders' Equity and Liabilities							
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	30.2
Retained earnings	(23.8)	(11.8)	(3.9)	(0.6)	5.4	16.9	34.2
Total equity	47.3	56.0	56.9	60.3	62.5	71.1	85.0
Non-current liabilities							
Long term borrowings	0.0	18.1	0.4	36.0	29.8	22.8	18.3
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	30.7	26.2
Current liabilities							
Trade and other payables	21.3	34.3	31.0	32.2	40.3	35.8	37.8
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	2.5	2.0
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	41.0	42.5
Total liabilities	79.6	70.7	79.9	80.5	81.1	71.7	68.6
<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>142.8</b>	<b>153.7</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	11.5	17.3
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	(5.7)	(1.8)
(Increase)/decrease in receivables	18.9	(19.7)	6.4	(3.5)	(0.0)	(6.2)	(3.4)
(Decrease)/increase in current liabilities	(5.3)	15.9	(3.5)	(0.4)	9.0	(4.4)	1.9
Change in operating working capital	17.5	(11.9)	3.2	(3.9)	10.3	(16.4)	(3.3)
<b>Cash flows from operating activities</b>	15.8	7.4	17.8	4.6	20.8	0.7	20.3
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)	(3.4)
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 activities</b>	(4.7)	(23.8)	7.6	(5.3)	(7.7)	(7.9)	(8.4)
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>(15.4)</b>	<b>2.8</b>
Opening cash balance	26.9	30.6	8.1	14.2	10.3	17.0	1.6
<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>1.6</b>	<b>4.4</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%	8%	8%
EMC division	(38%)	35%	16%	(18%)	4%	3%	4%
PM division	9%	43%	(41%)	29%	16%	13%	13%
AM division	(21%)	99%	6%	40%	27%	15%	15%
Operating profit Growth	NM	NM	(15%)	(43%)	30%	62%	47%
Net Income Growth	NM	NM	(15%)	(61%)	61%	83%	51%
<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%	7%	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%	8%
<b>Return Ratios</b>							
Profit Margin	(8%)	6%	6%	2%	3%	5%	8%
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	2.1x	1.9x
Dupont ROE (%)	(21%)	23%	18%	7%	10%	17%	22%
ROCE (%)	(18%)	21%	23%	8%	11%	17%	23%
ROA (%)	(8%)	9%	8%	3%	4%	8%	12%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.9x	0.4x	0.6x	0.6x	0.5x	0.4x	0.2x
Net Debt - Equity Ratio	0.3x	0.2x	0.4x	0.4x	0.2x	0.3x	0.2x
Interest Coverage	(4.2x)	12.1x	14.1x	4.9x	6.5x	11.9x	24.2x
<b>Liquidity Ratios</b>							
Current Ratio	1.2x	1.9x	1.1x	2.2x	2.0x	2.0x	2.2x
Quick Ratio	0.8x	1.2x	0.7x	1.4x	1.4x	1.2x	1.3x
<b>Valuation Ratios</b>							
EV/EBITDA	NM	13.8x	9.1x	11.8x	9.1x	8.6x	6.3x
P/E	NM	23.2x	14.6x	37.9x	22.8x	15.3x	10.1x
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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