

Schaffner Holding AG

Switzerland | Industrial Goods & Services

Acquisition update

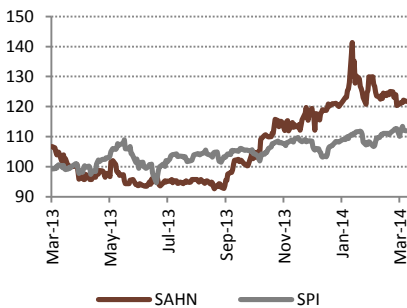
2 April 2014

Company Data

Price:	CHF 263
Market Cap:	CHF167mn
Free Float:	100%
No. of shares:	635'940
Avg. traded volume (1 year):	946
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	241.1
EBITDA %	8.3	8.8	10.4	12.7
EBIT %	4.1	4.8	7.4	9.6
Net Margin %	2.2	3.2	5.5	7.3
Basic EPS	6.2	9.9	19.2	27.8
Diluted EPS	6.0	9.9	19.1	27.6
DPS	3.5	4.5	5.8	8.3
Equity Ratio %	42.8	43.5	46.2	51.4
Capex	3.0	4.9	8.3	9.1
P/E	37.9x	22.8x	14.4x	10.0x
EV/EBITDA	11.8x	9.1x	8.2x	6.2x
EV/EBIT	24.0x	16.6x	11.5x	8.1x

Next Events

1HFY2014 results 13 May 2014

Analysts

Doris Rudischhauser
dru@dynamicsgroup.ch

Alexandre Müller
amu@dynamicsgroup.ch

Tel: +41 43 268 3232

Schaffner strengthens its position in the US with the acquisition of Trencos

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.

Acquisition details

Schaffner announced an acquisition of three subsidiaries of Transformer Holding LLC, namely Transformer Engineering LLC, Magnetics Technologies LLC and Transformer Real Estate LLC (together known as Trencos) for CHF9mn (approximately USD10mn). Trencos is a US based company that develops and manufactures customized power magnetics solutions. It reported revenues of CHF12mn with EBITDA margin in mid-to-high single digits translating to a trailing price-to-sales multiple of 0.75x. Schaffner will pay USD9.6mn upfront, with the rest being an earn-out and will finance the deal through extension of current credit lines. The acquisition confirms Schaffner's commitment towards its Buy-and-Build strategy for the Power Magnetics division.

Changes to the model

We have increased our FY14 revenue forecast to CHF222mn (previously CHF210mn, company guidance CHF220mn). Our FY14 EBIT is now CHF16mn compared to CHF15mn earlier, with group EBIT margin of 7.4% due to one-time corporate costs of CHF0.5mn. Consequently, we expect the group's FY14 diluted EPS to be CHF19.8 from CHF18 in our last update.

Our view

The acquisition gives Schaffner access to Trencos's clients and helps it strengthen its position in the strategic growth markets such as rail technology, energy-efficient drive systems and renewable energy. 50% of Trencos's products are complimentary to Schaffner's product line, and the combined entity now offers the largest portfolio of power quality solutions w/w. The acquisition also offers the group an opportunity to leverage its global sales and distribution network to market Trencos's products.

The transaction will help Schaffner strengthen its presence in the US market and give it access to Trencos's products that are US regulatory approved and ready for marketing. Looking at the deal multiples, at 0.75x 2013 revenues, the acquisition is at a discount to what Schaffner's product peers trade at (1.46x). After the acquisition, Schaffner becomes the fourth largest company in the Power Magnetics space and gets a boost towards achieving its target of becoming the second largest in the world. We feel that Schaffner trading at a discount to its peers (25%, 31% and 25% on EV/EBITDA, EV/EBIT and P/E measures respectively) is unwarranted given its focused growth strategy and expanding margins.

Exhibit 1: Schaffner – Comparison with product peers

Company (product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2013A	CY2014E	3 year average	CY2013A	CY2014E	3 year average	CY2013A	CY2014E
Schaffner Holding AG	8.0x	10.1x	7.7x	11.0x	16.2x	10.0x	13.6x	21.6x	12.4x
Omron Corp	6.2x	10.1x	8.7x	9.7x	13.8x	11.4x	13.6x	21.9x	18.5x
Laird Plc	6.8x	0.1x	0.1x	9.8x	0.1x	0.1x	9.9x	16.6x	16.5x
Ablerex Electronics Co Ltd	NA	NA	NA	NA	NA	NA	13.3x	NA	NA
Rongxin Power Electronic	18.2x	29.4x	22.0x	18.4x	45.7x	31.6x	19.3x	32.9x	32.9x
Yokogawa Electric Corp	7.5x	13.2x	10.2x	11.7x	21.1x	14.4x	17.9x	31.3x	20.8x
Lem Holding SA	10.2x	14.0x	12.4x	11.9x	16.8x	14.6x	16.6x	21.7x	18.8x
Komax Holding AG	6.8x	10.2x	8.1x	8.5x	13.4x	9.9x	11.6x	18.5x	13.3x
Gavazzi Carlo Holding AG	4.0x	6.6x	6.3x	4.6x	8.2x	7.7x	8.9x	14.3x	12.7x
Eaton Corp Plc	8.6x	13.9x	11.9x	10.3x	20.3x	15.5x	11.9x	18.2x	15.6x
Apator SA	9.1x	12.5x	11.8x	11.2x	15.6x	14.6x	13.0x	16.9x	16.5x
Median	7.5x	12.5x	10.2x	10.3x	15.6x	14.4x	13.2x	18.5x	16.5x
High	18.2x	29.4x	22.0x	18.4x	45.7x	31.6x	19.3x	32.9x	32.9x
Low	4.0x	0.1x	0.1x	4.6x	0.1x	0.1x	8.9x	14.3x	12.7x
Premium (disc) to product peers	6%	(20%)	(25%)	7%	4%	(31%)	4%	16%	(25%)

| Source: Bloomberg (as of 1 April 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	73	82
AM sales	8	17	18	25	31	36	41
Sales	133	189	183	177	195	222	241
Cost of goods sold	(98)	(130)	(126)	(128)	(142)	(153)	(163)
Gross profit	35	59	56	49	53	68	79
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)
Profit before amortization of customer relations	(9)	16	13	8	10	17	24
Amortiz. of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Operating profit (EBIT)	(9)	15	13	7	9	16	23
Depreciation	3	3	3	4	4	4	5
Amortisation of intangible assets	2	2	2	3	3	1	1
EBITDA	(3)	21	19	15	17	23	31
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	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
Diluted EPS	(18.0)	18.7	15.4	6.0	9.9	19.1	27.6
DPS	0.0	4.5	4.5	3.5	4.5	5.8	8.3

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>In CHF mn</i>	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Assets							
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
Total assets	126.9	126.6	136.8	140.8	143.7	155.5	166.8
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	30.0
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
Total equity and liab.	126.9	126.6	136.8	140.8	143.7	155.5	166.8

Source: Research Dynamics, Company data

Cash Flow Statement

<i>In CHF mn</i>	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
Change in current assets and liabilities:							
(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)
Cash flows from operating activities	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)	-	-
Cash flow generated (used) in investment activities	(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)	-	-
Cash flow generated (used) in financing activities	(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)	-	-
Net change in cash	3.7	(22.6)	6.2	(4.0)	6.8	(6.9)	2.6
Opening cash balance	26.9	30.6	8.1	14.2	10.3	17.0	10.2
Closing cash balance	30.6	8.1	14.2	10.3	17.0	10.2	12.8

Source: Research Dynamics, Company data

Key Ratios

	FY09	FY10	FY11	FY12	FY13	FY14e	FY15e
Growth Ratios							
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%
Profitability Ratios (%)							
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%
Return Ratios							
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%
Leverage Ratios							
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
Liquidity Ratios							
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
Valuation Ratios							
EV/EBITDA	NM	13.8x	9.1x	11.8x	9.1x	8.2x	6.2x
P/E	NM	23.2x	14.6x	37.9x	22.8x	14.4x	10.0x
P/BV	2.3x	5.0x	2.6x	2.5x	2.3x	2.4x	2.0x

Source: Research Dynamics, Bloomberg, Company data

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Dynamics Group AG

Utoquai 43
CH-8008 Zürich
Tel. +41 43 268 32 32
Fax +41 43 268 32 39

Zeughausgasse 22
CH-3011 Bern
Tel. +41 31 312 28 41
Fax +41 31 312 28 49

21, rue des Caroubiers
CH-1227 Carouge/GE
Tel. +41 22 308 62 20
Fax +41 22 308 62 36

contact@dynamicsgroup.ch

www.dynamicsgroup.ch