

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## Guidance update

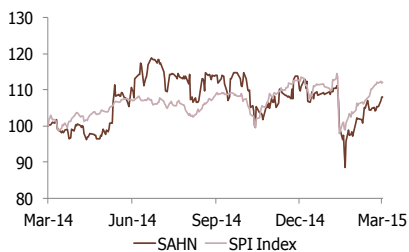
5 March 2015

### Company Data

Price:	CHF 286.3
Market Cap:	CHF 182.0mn
Free Float (% of total shares):	86%
No. of shares:	635'940
Avg. traded volume (1 year):	933
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg

### Share Price Movement (1-year)



### Key Financial Data

	2013	2014	2015E	2016E
Sales	194.9	214.6	215.4	221.8
EBITDA %	8.8%	10.8%	8.5%	9.7%
EBIT %	4.8%	7.0%	5.0%	6.0%
Net Margin %	3.2%	5.9%	3.8%	4.6%
Basic EPS	9.92	19.97	12.91	16.07
Diluted EPS	9.86	19.80	12.80	15.94
DPS	4.5	6.5	3.9	4.8
Equity Ratio %	48.6%	52.9%	42.8%	32.2%
Capex	4.8	6.4	7.5	8.3
P/E	22.8	14.4	22.3	17.9
EV/EBITDA	9.1	8.6	10.9	9.2
EV/EBIT	16.6	13.2	18.5	14.9

### Next Events

1HFY2015 Results	12 May 2015
FY2015 Annual Results	8 Dec 2015

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## Demand slump in key markets, FX to affect FY2015

Schaffner ('the group') is the only global company that offers EMC and power quality solutions from a single source. The group's products help lower power consumption and reduce costs leading to higher efficiency and resulting in a longer life span of diverse electrical and electronic equipments. The group also manufactures components for keyless entry antennas used in automobiles. Schaffner reported revenues of CHF214.6mn and had an employee count of 3,140 as of FY2014, which ended September 30.

### Uninspiring demand scenario to impede top-line growth in FY2015

Schaffner unexpectedly announced that its largest division – EMC – has been facing headwinds as orders for its high-quality solutions from the Chinese solar inverter industry fell significantly. However, the dip could be partially offset by a healthy demand for ECOSine harmonic filters. The PM division too is facing the heat of the ongoing geo-political tensions in Europe as a key client, whose end market is Russia, trimmed down orders. On the brighter side, Schaffner stated that the AM division is performing in line with the group's expectations.

### Guidance on 1H and full FY2015 results

Schaffner guided that revenue growth for 1HFY2015 will be flat y/y, given challenging market conditions and the abolition of CHF/EUR peg. Based on this guidance and the forex impacts, we expect Schaffner to report net sales of CHF102mn for 1HFY2015. The group also stated that it expects EBIT margin for the period to decline by 180bps y/y to 3%, indicating that cost base will remain high. For the entire fiscal year 2015, Schaffner at current exchange rates expects the top-line to remain stagnant (y/y) as demand from various key markets continues to remain soft. The group anticipates EBIT margin to decline from 7% last year to 5% in FY2015 on account of high CHF costs and flat revenue growth. Management stated that the group is working on executing cost management measures, which should result in reduced personnel costs in Switzerland in the mid-single digits.

### CHF de-peg to impact FY2015

The group derived just over 2% of the revenues (FY2014) from Switzerland, indicating the scrapping of the CHF/EUR floor would negatively impact the group's top-line in FY2015. Further, a significant portion of the expenses are incurred in CHF specifying that a large portion of the cost base will not change. This hurts the group's EBIT margin, according to management by 1 percentage point in FY2015. However, as the CHF stabilizes to a new normal based on the market conditions, we believe the group will post a healthy revenue and earnings growth beginning FY2016.

### Exhibit 1: Our estimates for FY2015

#### Pre-guidance estimates

Segments	FY14A	FY15E
EMC division (EMC)	110.0	114.9
growth y/y		4.5%
Power Magnetics (PM)	67.3	76.7
growth y/y		14.0%
Automotive division (AM)	37.3	42.9
growth y/y		15.0%
<b>Total sales (In CHF mn)</b>	<b>214.6</b>	<b>234.5</b>
<b>EBIT</b>	<b>15.0</b>	<b>22.5</b>
margin	7.0%	9.6%

#### Estimates post guidance & forex impact

Segments	FY14A	FY15E
EMC division (EMC)	110.0	101.6
growth y/y		-7.6%
Power Magnetics (PM)	67.3	73.0
growth y/y		8.5%
Automotive division (AM)	37.3	40.7
growth y/y		9.2%
<b>Total sales (In CHF mn)</b>	<b>214.6</b>	<b>215.3</b>
<b>EBIT</b>	<b>15.0</b>	<b>10.7</b>
margin	7.0%	5.0%

Source: Company data, Research Dynamics

- **Stock weakens post guidance**

The FY2015 guidance did not augur well with investors as the stock opened with a gap-down of 7.4% (CHF 265) and continued to slide further intraday. After a sales growth of ~10% y/y over the last two years, investors had expected FY2015 to be a positive one, despite the negative impact of CHF appreciation. However, we view the selling frenzy to be an over-reaction as the group has solid fundamentals and will perform well over the medium term.

- **Compelling valuation vs. peers**

Over the last six months, Schaffner stock has largely been range bound, after the positive sentiment post strong 1HFY2014 results subsided. The stock corrected sharply on announcement of the abolition of the CHF/EUR floor; however, it recovered largely in line with the Swiss benchmark index. The stock continues to trade at a discount, based on the closing price pre guidance update, of 5% and 12% on a P/E and EV/EBITDA basis, respectively, to its product peers. On the similar line, it trades at a discount of 5% and 17% (P/E and EV/EBITDA respectively) to its industry peers. Given Schaffner's long-term growth prospects, we believe a discount to its peers is unwarranted and that valuations remain attractive.

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

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E
Schaffner Holding AG	7.8x	10.4x	8.3x	10.8x	17.4x	12.7x	13.1x	21.1x	15.1x
Omron Corp	7.3x	8.6x	8.1x	10.2x	11.6x	10.9x	15.7x	17.7x	17.1x
Laird Plc	8.3x	11.5x	10.3x	11.0x	15.8x	13.7x	12.3x	24.1x	18.8x
Ablerec Electronics Co Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Yokogawa Electric Corp	8.0x	7.3x	6.8x	11.7x	10.5x	9.4x	17.1x	19.5x	15.8x
Lem Holding SA	11.5x	14.8x	13.9x	13.4x	17.1x	16.1x	17.9x	25.9x	24.2x
Komax Holding AG	7.3x	12.5x	11.0x	9.0x	12.8x	10.9x	12.5x	19.5x	14.4x
Gavazzi Carlo Holding AG	5.0x	7.9x	7.3x	5.9x	7.2x	7.1x	10.7x	21.3x	13.3x
Eaton Corp Plc	10.0x	12.1x	10.6x	10.9x	16.8x	13.8x	12.9x	23.2x	13.9x
Cosmo Ferrites Ltd	NA	NA	NA	NA	NA	NA	NA	NA	NA
Apator SA	10.0x	12.2x	11.4x	11.3x	15.0x	13.9x	14.0x	29.3x	NA
Median	8.1x	11.8x	10.4x	11.0x	13.9x	12.3x	13.4x	22.2x	15.8x
High	11.5x	14.8x	13.9x	13.4x	17.1x	16.1x	17.9x	29.3x	24.2x
Low	5.0x	7.3x	6.8x	5.9x	7.2x	7.1x	10.7x	17.7x	13.3x
Premium (disc) to product peers	(4%)	(12%)	(21%)	(2%)	25%	3%	(2%)	(5%)	(5%)

Source: Bloomberg (as on 04 March 2015)

**Exhibit 3: Schaffner – Comparison with Industry peers**

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E	3 year average	CY2015E	CY2016E
Schaffner Holding AG	7.8x	10.4x	8.3x	10.8x	17.4x	12.7x	13.1x	21.1x	15.1x
Lem Holding SA	11.5x	14.8x	13.9x	13.4x	17.1x	16.1x	17.9x	25.9x	20.5x
Kudelski SA	6.5x	8.2x	7.8x	12.5x	14.2x	13.1x	13.0x	17.7x	13.4x
Inficon Holding AG	11.0x	12.7x	12.1x	12.9x	14.9x	14.3x	16.7x	22.2x	18.8x
Also Holding AG	5.7x	6.5x	NA	7.4x	8.0x	NA	1.0x	11.6x	NA
Comet Holding AG	8.3x	12.5x	10.8x	12.3x	16.8x	14.8x	15.8x	23.8x	21.1x
Cicor Technologies	4.4x	NA	NA	7.0x	NA	NA	8.3x	NA	NA
Elma Electronic AG	NA	NA	NA	NA	NA	NA	NA	NA	NA
Datacolor AG	7.3x	NA	NA	9.3x	NA	NA	15.8x	NA	NA
Median	7.3x	12.5x	11.4x	12.3x	14.9x	14.5x	15.8x	22.2x	19.6x
High	11.5x	14.8x	13.9x	13.4x	17.1x	16.1x	17.9x	25.9x	21.1x
Low	4.4x	6.5x	7.8x	7.0x	8.0x	13.1x	1.0x	11.6x	13.4x
Premium (disc) to Industry peers	7%	(17%)	(28%)	(13%)	17%	(13%)	(17%)	(5%)	(23%)

Source: Bloomberg (as on 04 March 2015)

- **Conclusion**

Healthy market dynamics and a stable CHF had helped Schaffner post strong revenue and profit growth (y/y) in FY2014. However, a demand slowdown in the group's key end markets coupled with a sharp appreciation of the CHF will weigh on Schaffner's 1HFY2015 and full FY2015 results. We believe Schaffner is well equipped to handle the change in product demand dynamics by adjusting its product mix and by continuing to drive productivity enhancements. Thus, we believe the currency headwind to a near-term phenomenon and expect Schaffner to report healthy growth over the medium term.

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
EMC sales	111	129	106	110	110	102	102
PM sales	61	36	46	54	67	73	76
AM sales	17	18	25	31	37	41	44
<b>Sales</b>	<b>189</b>	<b>183</b>	<b>177</b>	<b>195</b>	<b>215</b>	<b>215</b>	<b>222</b>
Cost of goods sold	(130)	(126)	(128)	(142)	(152)	(153)	(156)
<b>Gross profit</b>	<b>59</b>	<b>56</b>	<b>49</b>	<b>53</b>	<b>63</b>	<b>63</b>	<b>66</b>
Marketing and sales	(16)	(15)	(17)	(17)	(18)	(21)	(21)
R&D expenses	(13)	(14)	(14)	(15)	(15)	(20)	(21)
General and administration	(15)	(14)	(11)	(10)	(13)	(11)	(11)
Other income	0	0	1	0	0	0	0
Total operating costs	(44)	(43)	(41)	(42)	(47)	(51)	(52)
Profit before amortization of customer relations	16	13	8	10	16	12	14
Amortisation of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT)</b>	<b>15</b>	<b>13</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>11</b>	<b>13</b>
Depreciation	3	3	4	4	4	5	6
Amortisation of intangible assets	2	2	3	3	3	2	2
<b>EBITDA</b>	<b>21</b>	<b>19</b>	<b>15</b>	<b>17</b>	<b>23</b>	<b>18</b>	<b>22</b>
Finance costs	(4)	(13)	(4)	(7)	(7)	(1)	(1)
Finance income	1	11	2	5	6	0	0
Total financial income (expenses)	(3)	(2)	(2)	(2)	(1)	(1)	(1)
Profit before taxes	12	11	5	7	14	10	12
Taxation	(0)	(1)	(1)	(1)	(1)	(1)	(2)
Profit attributable to the parent	12	10	4	6	13	8	10
<b>Basic EPS</b>	<b>18.9</b>	<b>16.0</b>	<b>6.2</b>	<b>9.9</b>	<b>20.0</b>	<b>12.9</b>	<b>16.1</b>
<b>Diluted EPS</b>	<b>18.7</b>	<b>15.4</b>	<b>6.0</b>	<b>9.9</b>	<b>19.8</b>	<b>12.8</b>	<b>15.9</b>
DPS	4.5	4.5	3.5	4.5	6.5	3.9	4.8

Source: Research Dynamics, Company data

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

### Key Ratios

	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
<b>Growth Ratios</b>							
Sales Growth	42%	(3%)	(3%)	10%	10%	0%	3%
EMC division	35%	16%	(18%)	4%	0%	(8%)	0%
PM division	43%	(41%)	29%	16%	25%	9%	4%
AM division	99%	6%	40%	27%	19%	9%	9%
Operating profit Growth	NM	(15%)	(43%)	30%	60%	(29%)	24%
Net Income Growth	NM	(15%)	(61%)	61%	101%	(35%)	25%
<b>Profitability Ratios (%)</b>							
Operating margin (%)	8%	7%	4%	5%	7%	5%	6%
EMC division (OPM)	16%	16%	12%	13%	14%	9%	10%
PM division (OPM)	5%	(1%)	(1%)	5%	6%	5%	6%
AM division (OPM)	9%	(2%)	2%	(6%)	7%	5%	6%
EBITDA Margin %	11%	10%	8%	9%	11%	8%	10%
Net Margin (%)	6%	6%	2%	3.2%	5.9%	3.8%	4.6%
<b>Return Ratios</b>							
Profit Margin	6%	6%	2%	3%	6%	4%	5%
Asset Turnover	1.5x	1.4x	1.3x	1.4x	1.4x	1.4x	1.5x
Financial Leverage	2.5x	2.3x	2.4x	2.3x	2.3x	2.2x	2.0x
Dupont ROE (%)	23%	18%	7%	10%	20%	12%	14%
ROCE (%)	21%	23%	8%	11%	16%	12%	14%
ROA (%)	9%	8%	3%	4%	8%	5%	7%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.4x	0.6x	0.6x	0.5x	0.5x	0.4x	0.3x
Net Debt - Equity Ratio	0.2x	0.4x	0.4x	0.2x	0.2x	0.4x	0.3x
Interest Coverage	12.1x	14.1x	4.9x	6.5x	15.3x	7.2x	11.5x
<b>Liquidity Ratios</b>							
Current Ratio	1.9x	1.1x	2.2x	2.0x	2.1x	2.1x	2.1x
Quick Ratio	1.2x	0.7x	1.4x	1.4x	1.4x	1.2x	1.3x
<b>Valuation Ratios</b>							
EV/EBITDA	13.8x	9.1x	11.8x	9.1x	8.6x	10.9x	9.2x
P/E	23.2x	14.6x	37.9x	22.8x	14.4x	22.3x	17.9x
P/BV	5.0x	2.6x	2.5x	2.3x	2.7x	2.6x	2.3x

Source: Research Dynamics, Bloomberg, Company data

### Balance Sheet

In CHF mn	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
<b>Assets</b>							
Non-current assets							
PPE	14.9	18.2	21.1	20.9	24.8	27.3	30.1
Intangible assets	14.8	24.1	22.3	19.6	24.1	24.4	24.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	12.2	11.8	13.3	12.5	4.8	4.8	4.8
Deferred tax	2.2	2.7	2.9	3.0	3.7	3.7	3.7
<b>Total Non Current Assets</b>	<b>44.1</b>	<b>56.8</b>	<b>59.6</b>	<b>56.1</b>	<b>57.4</b>	<b>60.2</b>	<b>62.5</b>
Current assets							
Inventories	31.1	29.1	29.9	28.1	31.3	35.6	36.2
Trade receivables	36.9	32.4	34.8	34.0	38.5	41.3	42.5
Income tax receivables	0.8	0.4	0.6	0.5	0.5	0.5	0.5
Other receivables	5.7	3.7	3.7	3.8	3.2	3.2	3.2
Other financial assets	0.0	0.2	2.1	4.1	4.9	4.9	4.9
Cash and cash equivalents	8.1	14.2	10.3	17.0	18.6	5.0	4.2
<b>Total assets</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>150.6</b>	<b>154.1</b>
<b>Shareholders' Equity and Liabilities</b>							
Share capital							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	47.1	40.1	40.3	36.5	35.3	31.2	28.7
Retained earnings	(11.8)	(3.9)	(0.6)	5.4	10.7	18.9	29.0
<b>Total equity</b>	<b>56.0</b>	<b>56.9</b>	<b>60.3</b>	<b>62.5</b>	<b>66.6</b>	<b>70.7</b>	<b>78.4</b>
Non-current liabilities							
Long term borrowings	18.1	0.4	36.0	29.8	35.1	27.2	22.7
Deferred tax liabilities	2.7	1.9	2.2	2.3	1.2	1.2	1.2
Provisions	7.1	6.6	6.1	5.6	6.1	6.1	6.1
<b>Total Non-Current Liab.</b>	<b>27.9</b>	<b>8.9</b>	<b>44.2</b>	<b>37.6</b>	<b>42.4</b>	<b>34.5</b>	<b>30.0</b>
Current liabilities							
Trade and other payables	34.3	31.0	32.2	40.3	41.9	37.7	38.4
Income tax liabilities	1.9	1.9	1.0	0.7	1.0	1.0	1.0
Short term borrowings	1.7	34.6	0.2	0.5	0.2	3.0	2.5
Provisions	4.9	3.5	2.9	2.0	2.3	3.7	3.7
<b>Total Current Liabilities</b>	<b>42.8</b>	<b>71.0</b>	<b>36.3</b>	<b>43.5</b>	<b>45.4</b>	<b>45.4</b>	<b>45.6</b>
<b>Total liabilities</b>	<b>70.7</b>	<b>79.9</b>	<b>80.5</b>	<b>81.1</b>	<b>87.8</b>	<b>79.9</b>	<b>75.6</b>
<b>Total equity and liab.</b>	<b>126.6</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>150.6</b>	<b>154.1</b>

Source: Research Dynamics, Company data

### Cash Flow Statement

In CHF mn	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Net profit for the period	12.0	10.2	3.9	6.3	12.6	8.2	10.2
Non-cash adjustments:	16.4	11.7	9.0	8.8	9.1	15.7	22.9
<b>Change in current assets and liabilities:</b>							
(Increase)/decrease in inventories	(8.0)	0.3	0.0	1.3	(1.2)	(4.2)	(0.7)
(Increase)/decrease in receivables	(19.7)	6.4	(3.5)	(0.0)	(0.8)	(2.8)	(1.2)
(Decrease)/increase in current liabilities	15.9	(3.5)	(0.4)	9.0	(0.2)	(4.2)	0.7
Change in operating working capital	(11.9)	3.2	(3.9)	10.3	(2.2)	(11.3)	(1.2)
<b>Cash flows from operating activities</b>	<b>7.4</b>	<b>17.8</b>	<b>4.6</b>	<b>20.8</b>	<b>15.3</b>	<b>3.5</b>	<b>16.2</b>
Purchase of PPE	(5.3)	(6.9)	(3.7)	(4.8)	(6.4)	(7.5)	(8.3)
Disposal of PPE	0.2	0.2	1.4	0.3	0.3	-	-
Purchase of intangible assets	(1.4)	(1.4)	(0.7)	(0.4)	(0.4)	(1.9)	(1.2)
(Acquisition)/divestment	(0.0)	(10.6)	(0.4)	(0.4)	(8.6)	-	-
Change in other assets	0.6	(0.0)	(0.0)	(0.9)	(0.7)	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>(6.0)</b>	<b>(18.7)</b>	<b>(3.4)</b>	<b>(6.2)</b>	<b>(15.8)</b>	<b>(9.4)</b>	<b>(9.6)</b>
Change in treasury shares	(1.1)	(7.3)	(1.0)	(1.1)	(3.1)	-	-
Proceeds from Share issues	0.2	4.4	0.5	1.2	2.6	-	-
Repayment of excess share premium	-	(2.8)	(2.8)	(2.2)	(2.9)	(4.1)	(2.5)
Net proceeds/(repayment) from debt	(22.9)	13.4	(1.8)	(5.5)	5.2	(5.0)	(5.0)
Amortization related to finance lease	-	-	(0.1)	(0.2)	(0.2)	-	-
<b>Cash flow generated (used) in financing activities</b>	<b>(23.8)</b>	<b>7.6</b>	<b>(5.3)</b>	<b>(7.7)</b>	<b>1.7</b>	<b>(7.6)</b>	<b>(7.5)</b>
Exchange (losses)/gains	(0.1)	(0.5)	0.2	(0.2)	0.3	-	-
<b>Net change in cash</b>	<b>(22.6)</b>	<b>6.2</b>	<b>(4.0)</b>	<b>6.8</b>	<b>1.5</b>	<b>(13.5)</b>	<b>(0.8)</b>
Opening cash balance	30.6	8.1	14.2	10.3	17.0	18.5	5.0
<b>Closing cash balance</b>	<b>8.1</b>	<b>14.2</b>	<b>10.3</b>	<b>17.0</b>	<b>18.5</b>	<b>5.0</b>	<b>4.2</b>

Source: Research Dynamics, Company data

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