

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## 1H 2015 earnings update

13 May 2015

### Company Data

Price:	CHF 249
Market Cap:	CHF 158.3mn
Free Float (% of total shares):	86%
No. of shares:	635'940
Avg. traded volume (1 year):	980
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 11 May 2015)

### Share Price Movement (Rebased to 100)



Source: Bloomberg

### 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	12.5	19.4	15.6
EV/EBITDA	9.1	7.6	9.6	8.1
EV/EBIT	16.6	11.6	16.3	13.1

### Next Events

FY2015 Annual Results	8 Dec 2015
20 <sup>th</sup> Annual General Meeting	12 Jan 2016

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## A mixed-set of numbers

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 manufactures products which ensure electromagnetic compatibility and are used in motor controls, drive systems, the energy sectors, rail technology, robots, machine tools, etc., and also support OEMs and equipment manufacturers to develop and implement energy-efficient systems. The Group had 3,140 employees as of FY2014.

### Revenues in-line, EBIT margins ahead of guidance

Schaffner reported net sales of CHF102.5mn (-0.1% y/y, +1.4% in local currency) for 1H2015, meeting its own – lowered from the FY2014 results' – guidance (released on March 5, 2015) that group revenues would be 'at the prior-year level'. Strong double-digit growth rates seen in Motor Drives, Traction and Automotive businesses helped Schaffner more than offset the drop experienced in the Renewable Energy sector. The Group faced headwinds in 2Q2015 on account of the abolition of the CHF/EUR peg and suspension of a rail technology order from Russia. Meanwhile, EBIT dipped by 24.2% y/y to CHF3.7mn mainly due to a mix shift from EMC to the lower margin PM and AM divisions. However, the EBIT margin of 3.6% was ahead of the guidance of 'around 3%' thanks to immediately initiated cost measures following the SNB's decision to de-peg the CHF on January 15. Schaffner reported net profit of CHF1.9mn (-40.5%y/y) for 1H2015, impacted by higher financial expenses (net), which almost doubled y/y.

### Segmental performance

**EMC:** EMC revenues dropped by 13.1% y/y to CHF46.7mn in 1H2015. With a majority of segment sales coming from Europe, the weak Euro affected the translation into the reporting currency. Further, a lower demand for EMC filters in China added to the drag. Consequently, the segment's revenue contribution to Group sales fell to 46% (from 52%) in 1H2015. Furthermore, the high CHF cost base eroded EBIT, which declined by over a half to CHF3.5mn. EBIT margin dipped over 600bps to 7.4%

**PM:** The PM segment's revenues came in at CHF33.2mn in 1H2015, up 7.8% y/y, driven by the Trencos acquisition, which contributed CHF4.8mn. As a result, the division's revenue contribution climbed to 32.4% (from 30%) in 1H2015. However, on an organic basis, revenues declined 7.7 y/y on account of the deferment of a Russian locomotive order due to lack of funds, and a continued fall in value of Euro and Yen. Despite the rise in revenues, EBIT declined to CHF1.3mn in 1H2015 from CHF1.7mn 1H2014 not least due to dilution from Trencos. EBIT margin fell by 160bps y/y to 3.9%.

**AM:** The AM division gave a stellar performance during the first half of FY2015, as revenues surged 24.7% y/y to CHF22.6mn on the back of a rise in sales volumes. This led to an increase in the segment's revenue contribution to 22.1% (from 17.7%) in 1H2015. Cost efficiency measures undertaken yielded positive results as EBIT rose 3.7x y/y to CHF2.8mn. EBIT margin climbed around 900bps to 12.3%.

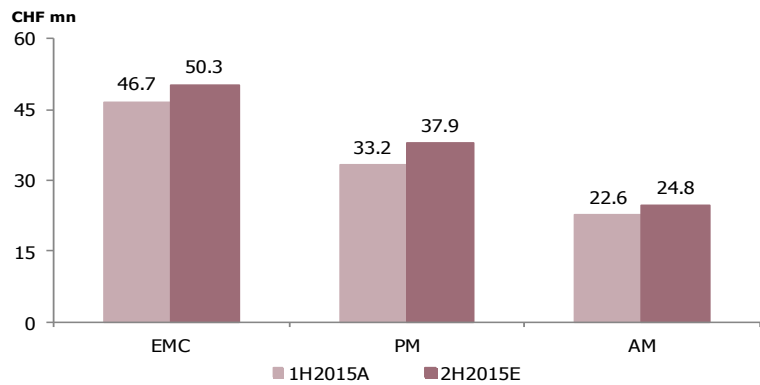
### Geographical revenue distribution more balanced now

While the Trencos integration boosted the footprint in the US, the forex movement influenced the revenue distribution shift, helping the Group transition towards a more balanced revenue distribution geographically. Trencos contributed 90% to the lift in revenue share from the Americas to 21% (from 16% in 1H2014) while a weak Euro reduced the contribution from Europe to 44% (from 47%). Revenue share of Asia-Pacific remained largely stable at 35% (vs. 37%). This shift has helped Schaffner inch closer toward its strategic target of a balanced global revenue distribution.

### Outlook unchanged for FY2015

Schaffner reiterated the FY2015 guidance it had given on March 5, 2015 stating that the Group does not see any big business coming in, no major changes in the demand environment in its key end markets and no dramatic currency fluctuations. The Group expects FY2015 revenues to be at similar levels seen in FY2014 and guided FY2015 EBIT margin to be around 5%. The coupled with the 1H2015 reports and the order book, Schaffner expects 2H2015 to be sequentially better one. Based on the guidance, we continue with our revenue forecast of CHF215.4mn and EBIT margin of 5%.

**Exhibit 1: Expecting a better 2H2015 sequentially**



Source: Bloomberg (as on 11 May 2015)

- China PV market – A near-term struggle**

An overcapacity situation in the Chinese photovoltaic (PV) market has severely impacted the demand-supply dynamics and resulted in a price war amongst the manufacturers. The low-cost substitution of the EMC filters for installations of solar inverters in China was a key reason that led to a sharp 40% y/y drop in sales from PV. This has resulted in share of Renewables falling to 10% of overall sales in 1H2015 from 16% over the year-ago period. However, management stated that it has not lost any market share in China. Despite the price pressure, which has eroded product quality amongst Chinese manufacturers, Schaffner will continue to manufacture high-quality products that confirm to major international standards. The Group also indicated it believes the ongoing price war to be unsustainable and manufacturers would revert to quality over the long term. Schaffner also added that re-engineering and new-generation technology needed in the PV industry are on anvil and these will be key growth drivers for the EMC division over the coming years.

- Unwarranted discount to its peers**

Since Schaffner unexpectedly reduced guidance back in March not only due to the CHF/EUR depeg but also the difficult solar inverter business in China, the stock has fallen by ~13% and has remained under pressure on account of pessimism due to currency and macroeconomic headwinds. However, Schaffner’s respectable performance a number of sectors in 1H2015 and a guidance of a sequentially stronger second half do not portray too negative a picture. Further, the Group’s focus on its growth divisions, implementation of cost efficiency measures and expansion of geographic footprint in the Americas indicate healthy mid-term prospects, despite 2015 being a “transition year”. The stock currently trades at a discount of 6% and 4% to its product peers on a EV/EBITDA and P/E basis respectively. On the similar lines, it trades at lower multiples to its industry multiples. Given the growth prospects, we believe current valuations could offer attractive entry levels.

**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	7.7x	9.2x	7.3x	10.8x	15.4x	11.2x	13.3x	18.3x	13.1x
Omron Corp	7.3x	8.9x	8.4x	10.2x	11.9x	11.3x	15.9x	17.9x	16.8x
Laird Plc	8.4x	11.2x	10.5x	11.2x	14.4x	13.3x	12.5x	17.4x	15.6x
Yokogawa Electric Corp	8.0x	8.1x	7.7x	11.6x	11.6x	10.8x	16.8x	17.5x	15.6x
Lem Holding SA	11.8x	15.9x	15.2x	13.7x	18.4x	17.6x	18.2x	23.0x	22.3x
Komax Holding AG	7.5x	11.2x	10.3x	9.3x	13.7x	12.5x	12.7x	17.4x	15.8x
Gavazzi Carlo Holding AG	5.1x	7.1x	6.7x	6.2x	9.0x	8.4x	11.1x	15.4x	14.7x
Eaton Corp Plc	10.2x	11.6x	10.8x	12.8x	15.4x	14.1x	13.1x	15.2x	13.8x
Apator SA	10.0x	10.7x	NA	12.3x	NA	NA	14.6x	19.7x	16.6x
Median	8.2x	10.9x	10.3x	11.4x	13.7x	12.5x	13.9x	17.5x	15.7x
High	11.8x	15.9x	15.2x	13.7x	18.4x	17.6x	18.2x	23.0x	22.3x
Low	5.1x	7.1x	6.7x	6.2x	9.0x	8.4x	11.1x	15.2x	13.8x
Premium (disc) to product peers	(6%)	(16%)	(29%)	(6%)	12%	(11%)	(4%)	5%	(17%)

Source: Bloomberg (as on 11 May 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	7.7x	9.2x	7.3x	10.8x	15.4x	11.2x	13.3x	18.3x	13.1x
Lem Holding SA	11.8x	15.9x	15.2x	13.7x	18.4x	17.6x	18.2x	23.0x	22.3x
Kudelski SA	6.7x	9.3x	8.9x	12.2x	15.9x	14.9x	12.9x	17.2x	16.2x
Inficon Holding AG	10.1x	13.5x	12.5x	11.6x	15.5x	14.4x	17.1x	21.0x	19.7x
Also Holding AG	5.8x	6.8x	NA	7.4x	8.3x	NA	10.0x	12.0x	NA
Comet Holding AG	8.6x	13.2x	11.4x	12.6x	17.0x	15.6x	16.6x	26.6x	23.9x
Cicor Technologies	4.3x	NA	NA	6.7x	NA	NA	7.7x	NA	NA
Datacolor AG	7.8x	9.6x	NA	10.3x	13.8x	NA	17.6x	23.1x	NA
Median	7.8x	11.4x	12.0x	11.6x	15.7x	15.3x	16.6x	22.0x	21.0x
High	11.8x	15.9x	15.2x	13.7x	18.4x	17.6x	18.2x	26.6x	23.9x
Low	4.3x	6.8x	8.9x	6.7x	8.3x	14.4x	7.7x	12.0x	16.2x
Premium (disc) to Industry peers	(1%)	(20%)	(39%)	(7%)	(2%)	(27%)	(20%)	(17%)	(38%)

Source: Bloomberg (as on 11 May 2015)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
EMC sales	111	129	106	110	110	97	105
PM sales	61	36	46	54	67	71	74
AM sales	17	18	25	31	37	47	42
<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
Amortization 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
Amortization 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%	(12%)	9%
PM division	43%	(41%)	29%	16%	25%	6%	5%
AM division	99%	6%	40%	27%	19%	27%	(11%)
Operating profit Growth	NM	(15%)	(43%)	30%	60%	(28%)	24%
Net Income Growth	NM	(15%)	(61%)	61%	101%	(35%)	24%
<b>Profitability Ratios (%)</b>							
Operating margin (%)	8%	7%	4%	5%	7%	5%	6%
EMC division (OPM)	16%	16%	12%	13%	14%	8%	10%
PM division (OPM)	5%	(1%)	(1%)	5%	6%	5%	6%
AM division (OPM)	9%	(2%)	2%	(6%)	7%	12%	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	2.0x	2.0x
Quick Ratio	1.2x	0.7x	1.4x	1.4x	1.4x	1.2x	1.2x
<b>Valuation Ratios</b>							
EV/EBITDA	13.8x	9.1x	11.8x	9.1x	7.6x	9.6x	8.1x
P/E	23.2x	14.6x	37.9x	22.8x	12.5x	19.4x	15.6x
P/BV	5.0x	2.6x	2.5x	2.3x	2.4x	2.2x	2.0x

Source: Research Dynamics, Bloomberg, Company data

### Balance Sheet

<i>In CHF mn</i>	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	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>

### Cash Flow Statement

<i>In CHF mn</i>	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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