

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## Company update

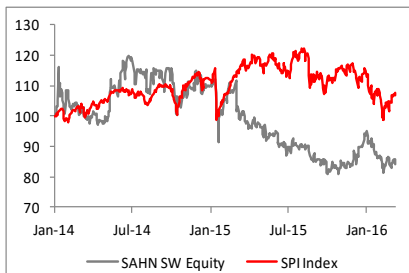
11 March 2016

### Company Data

Price:	CHF 214.2
Market Cap:	CHF 133.5mn
Free Float (% of total shares):	88%
No. of shares:	635'940
Avg. traded volume (1 year):	606
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 09 March 2016)

### Share Price Movement (Rebased to 100)



Source: Bloomberg

### Key Financial Data

	2014	2015	2016E	2017E
Sales	214.6	201.8	204.0	216.9
EBITDA %	10.8	8.7	6.2	11.8
EBIT %	7.0	4.4	2.67	7.46
Net Margin %	5.9	3.1	1.5	5.2
Basic EPS	20.0	10.0	4.9	17.8
Diluted EPS	19.9	9.9	4.9	17.7
DPS	6.5	6.5	1.5	5.3
Equity Ratio %	43.2	45.0	35.0	34.9
Capex	6.4	4.7	6.1	8.7
P/E	14.8x	22.2x	45.1x	12.4x
EV/EBITDA	8.8x	9.0x	12.5x	6.2x
EV/EBIT	13.6x	17.9x	29.0x	9.8x

### Next Events

H1 result	12 May 2016
Annual Report	6 Dec 2016

### Analysts

Doris Rudischhauser  
dru@researchdynamics.ch

Alexandre Müller  
amu@researchdynamics.ch

Tel: +41 43 268 3232

[www.researchdynamics.ch](http://www.researchdynamics.ch)

## Accelerated implementation of strategy measures

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 develops and manufactures products that are used in motor controls, drive systems, the alternative energy sector, rail technology, robots, machine tools, etc., and also supports OEMs and equipment manufacturers to develop and implement energy-efficient systems. Schaffner also manufactures components for keyless entry antennas used in automobiles. The group generated revenues of CHF 202mn and had an employee base of 3,143 as of FY2014/15, which ended September 30.

### Expected loss in H1 – Performance to improve from 2017 onwards

Schaffner announced that it is likely to report a loss at the operating level in H1 FY15/16. The company previously had already stated that the fiscal year had started with an about 9% drop in new orders. We believe the weak economic environment in important markets such as the US, Germany and China, along with the appreciation of the Swiss franc, has hurt the company's performance. Schaffner stated that it has accelerated its efforts on operational restructuring, which is likely to lead to additional one-off costs of CHF 4mn in FY15/16, though we do not expect the company to record the full amount in the first half. Under this program, the company is looking to sustainably reduce material costs and streamline fixed cost structures, with a target of achieving CHF 5mn of savings on an annual basis.

### Estimates lowered on announcement

We have lowered our estimates on the company post the announcement. Despite the operational loss in H1 FY2015/16, we expect the company will be profitable for the full-year. We expect revenues to be mostly flat in FY2015/16 at CHF 204mn (FY2014/15: CHF 201.8mn). We have also lowered our operating profit expectation for the full year to CHF 5.5mn, compared to CHF 8.8mn the company achieved in FY2014/15. We expect Schaffner's financials to improve significantly from 2017 onwards, as its operational restructuring initiatives start to pay off. The company expects to achieve its target of an 8% EBITA margin, defined in the "Strategy 2020", over the next 24 months. However, given the current sluggish global economic scenario, we believe this is a challenging environment for the company to attain its 2020 strategy targets.

### Power Magnetics: Management change

Eduard Hadorn, the Head of the Power Magnetics division, will be stepping down from his position as well as the executive committee with effect from March 31, 2016. He will take charge of developing Schaffner's business in India. CEO Alexander Hagemann will head the PM division on a temporary basis, until a successor is appointed to manage the division.

### Valuation

Post the estimates' revision, Schaffner is trading at a premium to its peers based on 2016 estimates. However, we believe comparing the company to peers based on 2016 earnings estimates is not justified as it is currently in the process of restructuring its operations. Based on 2017 estimates, post the company's restructuring efforts, Schaffner trades at a 31%, 14% and 10% discount to its product peers on an EV/EBITDA, EV/EBIT and PE basis, respectively. Compared to its industry peers, it trades at a discount of 39%, 29% and 35% on an EV/EBITDA, EV/EBIT and PE basis, respectively.

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

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	7.7x	11.8x	5.8x	10.9x	27.3x	9.2x	13.5x	43.1x	11.8x
Omron Corp	8.6x	6.4x	5.9x	10.6x	9.6x	8.5x	16.4x	14.0x	12.5x
Laird Plc	9.7x	10.2x	9.2x	11.5x	13.3x	11.3x	13.2x	15.0x	13.3x
Yokogawa Electric Corp	8.1x	5.4x	5.3x	11.6x	7.5x	7.5x	16.9x	11.1x	11.1x
Lem Holding SA	12.4x	14.5x	13.2x	14.4x	16.9x	15.3x	19.0x	20.8x	18.8x
Komax Holding AG	8.1x	11.7x	11.5x	9.9x	13.8x	13.7x	13.4x	17.0x	16.3x
Gavazzi Carlo Holding AG	5.5x	6.5x	6.4x	6.7x	8.0x	7.8x	12.0x	14.5x	13.9x
Eaton Corp Plc	10.7x	10.5x	10.0x	13.5x	14.7x	14.0x	13.6x	13.8x	12.8x
Aparator SA	15.3x	7.9x	7.6x	12.8x	10.7x	10.2x	14.5x	11.9x	11.3x
Median	9.2x	9.1x	8.4x	11.6x	12.0x	10.7x	14.1x	14.2x	13.1x
High	15.3x	14.5x	13.2x	14.4x	16.9x	15.3x	19.0x	20.8x	18.8x
Low	5.5x	5.4x	5.3x	6.7x	7.5x	7.5x	12.0x	11.1x	11.1x
Premium (disc) to product peers	(16%)	30%	(31%)	(6%)	127%	(14%)	(4%)	203%	(10%)

Source: Bloomberg (as of 09 March 2016)

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

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E	3 year average	CY2016E	CY2017E
Schaffner Holding AG	7.7x	11.8x	5.8x	10.9x	27.3x	9.2x	13.5x	43.1x	11.8x
Lem Holding SA	12.4x	14.5x	13.2x	14.4x	16.9x	15.3x	19.0x	20.8x	18.8x
Kudelski SA	6.9x	8.2x	7.9x	12.1x	12.5x	11.9x	13.1x	15.7x	14.4x
Inficon Holding AG	10.7x	NA	NA	12.3x	NA	NA	17.8x	19.9x	18.3x
Also Holding AG	5.8x	NA	NA	7.5x	NA	NA	10.0x	NA	NA
Comet Holding AG	9.2x	11.8x	9.5x	12.6x	16.6x	12.9x	18.1x	23.7x	18.4x
Cicor Technologies	4.3x	NA	NA	6.5x	NA	NA	7.4x	NA	NA
Datacolor AG	8.2x	9.6x	NA	11.0x	13.2x	NA	18.8x	17.9x	NA
Median	8.2x	10.7x	9.5x	12.1x	14.9x	12.9x	17.8x	19.9x	18.3x
High	12.4x	14.5x	13.2x	14.4x	16.9x	15.3x	19.0x	23.7x	18.8x
Low	4.3x	8.2x	7.9x	6.5x	12.5x	11.9x	7.4x	15.7x	14.4x
Premium (disc) to Industry peers	(6%)	10%	(39%)	(10%)	83%	(29%)	(25%)	116%	(35%)

Source: Bloomberg (as of 09 March 2016)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
EMC sales	129	106	110	110	95	92	97
PM sales	36	46	54	67	64	65	69
AM sales	18	25	31	37	43	47	50
<b>Sales</b>	<b>183</b>	<b>177</b>	<b>195</b>	<b>215</b>	<b>202</b>	<b>204</b>	<b>217</b>
Cost of goods sold	(126)	(128)	(142)	(152)	(145)	(149)	(150)
<b>Gross profit</b>	<b>56</b>	<b>49</b>	<b>53</b>	<b>63</b>	<b>57</b>	<b>55</b>	<b>67</b>
Marketing and sales	(15)	(17)	(17)	(18)	(18)	(19)	(20)
R& D expenses	(14)	(14)	(15)	(15)	(17)	(20)	(20)
General and administration	(14)	(11)	(10)	(13)	(13)	(10)	(10)
Other income	0	1	0	0	1	0	0
Total operating costs	(43)	(41)	(42)	(47)	(47)	(52)	(50)
Profit before amortization of customer relations	13	8	10	16	10	7	17
Amortization of customer relations	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Operating profit (EBIT)</b>	<b>13</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>9</b>	<b>5</b>	<b>16</b>
Depreciation	3	4	4	4	5	5	7
Amortization of intangible assets	2	3	3	3	3	1	1
<b>EBITDA</b>	<b>19</b>	<b>15</b>	<b>17</b>	<b>23</b>	<b>18</b>	<b>13</b>	<b>26</b>
Finance costs	(13)	(4)	(7)	(7)	(5)	(2)	(3)
Finance income	11	2	5	6	4	0	0
Total financial income (expenses)	(2)	(2)	(2)	(1)	(1)	(2)	(3)
Profit before taxes	11	5	7	14	8	4	14
Taxation	(1)	(1)	(1)	(1)	(2)	(1)	(2)
<b>Profit attributable to the parent</b>	<b>10</b>	<b>4</b>	<b>6</b>	<b>13</b>	<b>6</b>	<b>3</b>	<b>11</b>
Basic EPS	16.0	6.2	9.9	20.0	10.0	4.9	17.8
<b>Diluted EPS</b>	<b>15.4</b>	<b>6.0</b>	<b>9.9</b>	<b>19.9</b>	<b>9.9</b>	<b>4.9</b>	<b>17.7</b>
DPS	4.5	3.5	4.5	6.5	6.5	1.5	5.3

Source: Research Dynamics, Company data

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

### Key Ratios

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Growth Ratios</b>							
Sales Growth	(3%)	(3%)	10%	10%	(6%)	1%	6%
EMC division	16%	(18%)	4%	0%	(13%)	(3%)	5%
PM division	(41%)	29%	16%	25%	(5%)	2%	7%
AM division	6%	40%	27%	19%	15%	9%	8%
Operating profit Growth	(15%)	(43%)	30%	60%	(41%)	(38%)	196%
Net Income Growth	(15%)	(61%)	61%	101%	(50%)	(51%)	264%
<b>Profitability Ratios</b>							
Operating margin (%)	7%	4%	5%	7%	4%	3%	7%
EMC division (OPM)	16%	12%	13%	14%	9%	9%	11%
PM division (OPM)	(1%)	(1%)	5%	6%	1%	3%	8%
AM division (OPM)	(2%)	2%	(6%)	7%	15%	12%	12%
EBITDA Margin %	10%	8%	9%	11%	9%	6%	12%
Net Margin (%)	6%	2%	3.2%	5.9%	3.1%	1.5%	5.2%
<b>Return Ratios</b>							
Profit Margin	6%	2%	3%	6%	3%	2%	5%
Asset Turnover	1.4x	1.3x	1.4x	1.4x	1.3x	1.3x	1.2x
Financial Leverage	2.3x	2.4x	2.3x	2.3x	2.4x	2.7x	2.9x
Dupont ROE (%)	18%	7%	10%	20%	10%	5%	18%
ROCE (%)	23%	8%	11%	16%	10%	6%	12%
ROA (%)	8%	3%	4%	8%	4%	2%	6%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.6x	0.6x	0.5x	0.5x	0.6x	1.0x	1.1x
Net Debt - Equity Ratio	0.4x	0.4x	0.2x	0.2x	0.3x	0.7x	0.8x
Interest Coverage	14.1x	4.9x	6.5x	15.3x	8.9x	2.6x	5.7x
<b>Liquidity Ratios</b>							
Current Ratio	1.1x	2.2x	2.0x	2.1x	2.5x	2.1x	2.1x
Quick Ratio	0.7x	1.4x	1.4x	1.4x	1.6x	1.3x	1.4x
<b>Valuation Ratios</b>							
EV/EBITDA	9.1x	11.8x	9.1x	8.8x	8.5x	11.8x	5.8x
P/E	14.6x	37.9x	22.8x	14.8x	21.6x	43.9x	12.1x
P/BV	2.6x	2.5x	2.3x	2.8x	2.3x	2.3x	2.0x

Source: Research Dynamics, Bloomberg, Company data

### Balance Sheet

In CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
<b>Assets</b>							
Non-current assets							
PPE	18.2	21.1	20.9	24.8	22.7	43.9	65.7
Intangible assets	24.1	22.3	19.6	24.1	22.1	22.8	23.6
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	11.8	13.3	12.5	4.8	2.2	2.2	2.2
Deferred tax	2.7	2.9	3.0	3.7	4.6	4.6	4.6
<b>Total Non Current Assets</b>	<b>56.8</b>	<b>59.6</b>	<b>56.1</b>	<b>57.4</b>	<b>51.7</b>	<b>73.6</b>	<b>96.1</b>
Current assets							
Inventories	29.1	29.9	28.1	31.3	32.0	32.7	32.8
Trade receivables	32.4	34.8	34.0	38.5	34.7	37.5	39.2
Income tax receivables	0.4	0.6	0.5	0.5	0.3	0.3	0.3
Other receivables	3.7	3.7	3.8	3.2	3.0	3.0	3.0
Other financial assets	0.2	2.1	4.1	4.9	5.6	5.6	5.6
Cash and cash equivalents	14.2	10.3	17.0	18.6	19.6	14.5	20.2
<b>Total assets</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>146.9</b>	<b>167.1</b>	<b>197.2</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							
Reserves & Surplus	40.1	40.3	36.5	35.3	28.4	24.2	23.3
Retained earnings	(3.9)	(0.6)	5.4	10.7	10.4	13.5	24.8
<b>Total equity</b>	<b>56.9</b>	<b>60.3</b>	<b>62.5</b>	<b>66.6</b>	<b>59.4</b>	<b>58.4</b>	<b>68.8</b>
Non-current liabilities							
Long term borrowings							
Long term borrowings	0.4	36.0	29.8	35.1	37.5	52.0	70.0
Deferred tax liabilities							
Deferred tax liabilities	1.9	2.2	2.3	1.2	0.4	0.4	0.4
Provisions	6.6	6.1	5.6	6.1	10.9	10.9	10.9
<b>Total Non-Current Liab.</b>	<b>8.9</b>	<b>44.2</b>	<b>37.6</b>	<b>42.4</b>	<b>48.8</b>	<b>63.3</b>	<b>81.3</b>
Current liabilities							
Trade and other payables							
Trade and other payables	31.0	32.2	40.3	41.9	36.7	38.0	37.7
Income tax liabilities							
Income tax liabilities	1.9	1.0	0.7	1.0	1.0	1.0	1.0
Short term borrowings							
Short term borrowings	34.6	0.2	0.5	0.2	0.3	5.8	7.8
Provisions	3.5	2.9	2.0	2.3	0.7	0.7	0.7
<b>Total Current Liabilities</b>	<b>71.0</b>	<b>36.3</b>	<b>43.5</b>	<b>45.4</b>	<b>38.6</b>	<b>45.4</b>	<b>47.2</b>
<b>Total liabilities</b>	<b>79.9</b>	<b>80.5</b>	<b>81.1</b>	<b>87.8</b>	<b>87.4</b>	<b>108.7</b>	<b>128.5</b>
<b>Total equity and liab.</b>	<b>136.8</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>146.9</b>	<b>167.1</b>	<b>197.2</b>

Source: Research Dynamics, Company data

### Cash Flow Statement

In CHF mn	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E
Net profit for the period	10.2	3.9	6.3	12.6	6.3	3.1	11.3
Non-cash adjustments:	11.7	9.0	8.8	9.1	14.6	20.7	24.8
<b>Change in current assets and liabilities:</b>							
(Increase)/decrease in inventories	0.3	0.0	1.3	(1.2)	(2.5)	(0.7)	(0.1)
(Increase)/decrease in receivables	6.4	(3.5)	(0.0)	(0.8)	2.5	(2.7)	(1.8)
(Decrease)/increase in current liabilities	(3.5)	(0.4)	9.0	(0.2)	(3.5)	1.3	(0.3)
Change in operating working capital	3.2	(3.9)	10.3	(2.2)	(3.6)	(2.1)	(2.2)
<b>Cash flows from operating activities</b>	<b>17.8</b>	<b>4.6</b>	<b>20.8</b>	<b>15.3</b>	<b>8.2</b>	<b>7.1</b>	<b>17.4</b>
Purchase of PPE	(6.9)	(3.7)	(4.8)	(6.4)	(4.7)	(6.1)	(8.7)
Disposal of PPE	0.2	1.4	0.3	0.3	0.3	-	-
Purchase of intangible assets	(1.4)	(0.7)	(0.4)	(0.4)	(0.8)	(2.0)	(2.1)
(Acquisition)/divestment	(10.6)	(0.4)	(0.4)	(8.6)	-	(20.0)	(20.0)
Change in other assets	(0.0)	(0.0)	(0.9)	(0.7)	(0.7)	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>(18.7)</b>	<b>(3.4)</b>	<b>(6.2)</b>	<b>(15.8)</b>	<b>(5.9)</b>	<b>(28.1)</b>	<b>(30.8)</b>
Change in treasury shares							
Change in treasury shares	(7.3)	(1.0)	(1.1)	(3.1)	(0.9)	-	-
Proceeds from Share issues							
Proceeds from Share issues	4.4	0.5	1.2	2.6	1.3	-	-
Repayment of excess share premium							
Repayment of excess share premium	(2.8)	(2.8)	(2.2)	(2.9)	(4.1)	(4.1)	(0.9)
Net proceeds/(repayment) from debt							
Net proceeds/(repayment) from debt	13.4	(1.8)	(5.5)	5.2	2.9	20.0	20.0
Amortization related to finance lease							
Amortization related to finance lease	-	(0.1)	(0.2)	(0.2)	(0.2)	-	-
<b>Cash flow generated (used) in financing</b>	<b>7.6</b>	<b>(5.3)</b>	<b>(7.7)</b>	<b>1.7</b>	<b>(1.0)</b>	<b>15.9</b>	<b>19.1</b>
Exchange (losses)/gains	(0.5)	0.2	(0.2)	0.3	(0.4)	-	-
<b>Net change in cash</b>	<b>6.2</b>	<b>(4.0)</b>	<b>6.8</b>	<b>1.5</b>	<b>1.0</b>	<b>(5.1)</b>	<b>5.7</b>
Opening cash balance	8.1	14.2	10.3	17.0	18.6	19.6	14.5
<b>Closing cash balance</b>	<b>14.2</b>	<b>10.3</b>	<b>17.0</b>	<b>18.5</b>	<b>19.6</b>	<b>14.5</b>	<b>20.2</b>

Source: Research Dynamics, 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](mailto:contact@dynamicsgroup.ch)

<http://www.dynamicsgroup.ch>