

# Schaffner Holding AG

Switzerland | Industrial Goods & Services

## 1H 2017 earnings update

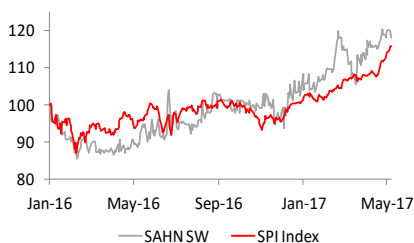
12 May 2017

### Company Data

Price:	CHF 300.0
Market Cap:	CHF 190.7mn
Free Float (% of total shares):	75.5%
No. of shares:	635,940
Avg. traded volume (1 year):	478
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 11 May 2017)

### Share Price Movement (Rebased to 100)



Source: Bloomberg

### Key Financial Data

	2015	2016	2017E	2018E
Sales	201.8	185.6	192.9	199.3
EBITDA %	9.2%	6.4%	10.0%	9.9%
EBIT %	5.4%	0.8%	6.4%	7.0%
Net Margin %	3.8%	0.2%	4.6%	5.1%
Basic EPS	12.14	0.61	14.13	15.98
Diluted EPS	12.08	0.61	14.11	15.95
DPS	6.5	0.0	2.8	4.0
Equity Ratio %	38.3%	37.9%	42.5%	44.2%
Capex	4.7	4.6	5.4	5.9
P/E	24.8	493.0	21.3	18.8
EV/EBITDA	11.1	17.5	11.6	10.5
P/B	19.1	131.2	16.7	14.8

### Next Events

FY2017 Annual Results	07 Dec 2017
22nd Annual General Meeting	11 Jan 2018

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## Marching Towards Higher Profitability

- **Revenue growth returns, EBIT margin tops our estimate**

Schaffner reported net sales of CHF 94.6mn (2.2% y/y, 4.5% in local currency) for 1H2017. The recovery in sales was primarily attributable to the growth in core markets such as automotive electronics, machine tools and power supplies for electronic devices which grew 14%, 45% and 7% respectively. Along with this, after a decline in 2H2016 the energy-efficient drive systems and rail technology core markets also showed improvements during 1H2017. EBIT for the period improved significantly to CHF6.0mn as compared CHF0.7mn in 1H2016. Net profit reported for the period was at CHF4.2mn, vs. CHF0.4mn in 1H2016. On the regional basis, for 1H2017, 22% of the group revenue came from North America, while Europe and Asia accounted for 41% and 37% respectively. The group received CHF99.7mn new orders in 1H2017 taking the book-to-bill ratio to 1.05.

- **Segmental performance**

**EMC:** The EMC division's sales came in at CHF45.7mn marginally higher from last year (CHF45.4mn). The growth in segment sales was aided by sales force in North America. Despite the increase in raw material prices, which was offset by production efficiency, the division's EBIT almost doubled to CHF6.2mn from CHF3.2mn in 1H2016, which translated into higher profit margin of 13.6%. EBIT margin improved 6.6 %-points from 7.0% in 1H2016. The company has started to harvest the benefit of past investments in product developments which is demonstrated by the significant improvement in EBIT margins. Looking ahead at FY2017, management intends to continue gaining market share and increasing sales through the launch of new power quality products, which should reflect in profitability improvement as well.

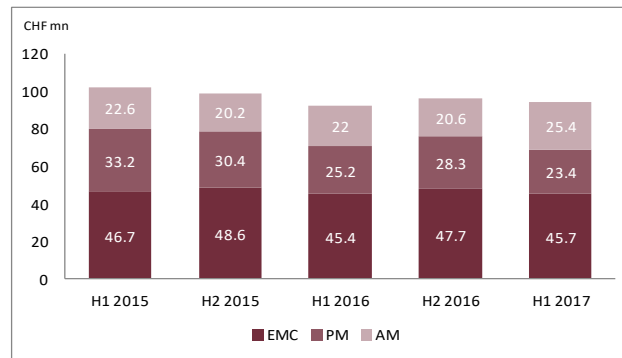
**PM:** PM division's sales declined 7.1% to CHF23.4mn from CHF25.4mn in 1H2016, while on sequential basis it improved 16% from CHF20.2mn. The sequential improvement in the sales was due to a positive momentum in China's core market rail technology and wind turbine market. The division's operating loss almost halved to CHF3.5mn as compared to CHF6.2mn in 1H2016. Going forward, the European plant in Hungary is expected to reach its performance targets in the next year. Management expects to focus on optimising the production capacity and driving sales recovery in key markets.

**AM:** Sales in the AM division increased by 15.4% y/y to CHF25.4mn. Sales growth was aided by strength of the global automobile market and demand for antennas for keyless entry systems, accounting over 90% of segment sales. EBIT margin continued its upward trajectory, increasing to 23.1% in 1H2017 (from 21.4% in 1H2016), on account of operational improvements and competitive cost structure. Although the EBIT margin in 2H2016 (27.2%) was higher due to one-time effects, such figures will be difficult to realize going forward and a margin >20% will still be a very good achievement in this business. The company expects growth for the division from EMC filters for electric vehicles. A multiyear contract with one of the European premium automobile manufacturer has already been concluded which will start delivery in FY2017-18.

- **Maintains medium-term goals**

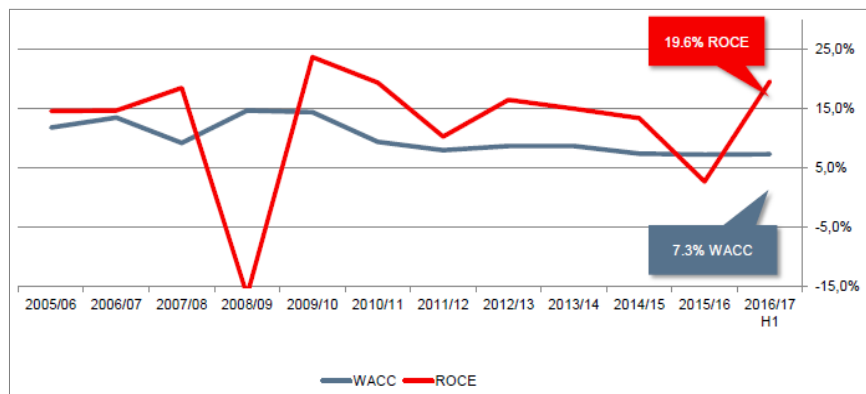
Schaffner management stated that the demand condition for their core markets within automotive electronics, rail technology, energy-efficient drive systems, power supplies for electronic devices, machine tools and electro-mobility offer sustainable growth opportunity. Management reiterated its medium-term goal targets of organic sales growth and EBIT margin in excess of 5% and 8%, respectively following the turnaround of the Power Magnetics division. Based on the guidance and 1H2017 performance, we increase our revenue forecast for FY2017 to CHF192.9mn from CHF189.8mn.

**Exhibit 1: Division-wise revenue performance**



Source: Company reports

**Exhibit 2: ROCE and WACC Trend**



Source: Company reports

- Restructuring process continues to cut cost:** Schaffner management’s consistent efforts to achieve cost efficiencies have paved way for profitability. Over the period, restructuring plans have helped them save CHF 1.7mn. Company looks forward to take up more restructuring initiative and to achieve savings of CHF6mn annually. We believe the company is efficiently progressing in its cost efficiency measures. Of focus will be the Power Magnetics division, where profitability is expected to be achieved in the course of the next year as long as revenues exceed the breakeven level of CHF55mn.
- Measures for growth:** Cost saving measures undertaken by the company along with operational efficiency, helped to slightly reduce the production cost, despite an increase in raw material cost. The company won many new projects worth CHF99.7mn (v/s CHF94.2mn a year ago). In the Automotive division, the company has added advantage in having good customer portfolio and core competency in EMC technology that gives an upper-hand to Schaffner. Also, the company won a multiyear contract with a European automobile manufacturer for EV filters whose deliveries are expected to start from 2017/18 which is expected to have a positive impact in sales going forward. In a paradigm shift, global auto industry is moving towards electric vehicles and letting go of the traditional combustion engines. The change, however small, opens a plethora of opportunities for the company that operates in a niche segment.
- Discount to peers on 2017 estimates:** Schaffner’s strategy of improvement in restructuring and production costs have impacted positively to their 1H 2017 results. Adoption of new reporting standard also helped ROCE to move up by ~2percentage points to 19.6%. Based on 2017 EV/EBITDA estimates, the company is trading in line to its product peers’ average while it is trading at a discount of 17% to average industry peers. Looking at the 3-year average EV/EBITDA, the company trades at a discount of 7% to its product peers and 5% discount to industry peers. The company is confident of exceeding last year’s second half comparable numbers. We believe the company’s operational efficiency and effective management will help them achieve medium-term goal of net sales growth at 5% and EBIT margin at more than 8%.

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

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
Schaffner Holding AG	9.4x	11.6x	10.5x	17.7x	16.7x	14.8x	21.0x	NA	18.8x
Omron Corp	8.7x	8.6x	7.9x	12.0x	12.6x	11.1x	18.1x	19.0x	17.5x
Laird Plc	13.3x	9.5x	8.4x	30.9x	14.0x	12.1x	20.3x	15.3x	13.5x
Yokogawa Electric Corp	8.7x	9.4x	8.7x	13.1x	13.6x	12.3x	20.1x	19.1x	18.3x
Lem Holding SA	14.2x	18.9x	18.5x	16.4x	21.6x	21.2x	18.8x	26.9x	26.3x
Komax Holding AG	10.1x	13.4x	12.4x	12.8x	15.8x	14.5x	15.8x	20.0x	18.3x
Gavazzi Carlo Holding AG	6.3x	10.5x	10.3x	7.6x	12.9x	12.6x	13.9x	19.8x	19.8x
Aparator SA	11.6x	9.5x	9.1x	15.2x	12.8x	12.1x	15.2x	14.9x	13.1x
Median	10.1x	9.5x	9.1x	13.1x	13.6x	12.3x	18.1x	19.1x	18.3x
High	14.2x	18.9x	18.5x	30.9x	21.6x	21.2x	20.3x	26.9x	26.3x
Low	6.3x	8.6x	7.9x	7.6x	12.6x	11.1x	13.9x	14.9x	13.1x
Premium (disc) to product peers	(7%)	22%	15%	35%	23%	21%	16%	NA	3%

Source: Bloomberg (as on 11 May 2017)

**Exhibit 4: Schaffner – Comparison with Industry peers**

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E	3 year average	CY2017E	CY2018E
Schaffner Holding AG	9.4x	11.6x	10.5x	17.7x	16.7x	14.8x	21.0x	NA	18.8x
Lem Holding SA	14.2x	18.9x	18.5x	16.4x	21.6x	21.2x	18.8x	26.9x	26.3x
Kudelski SA	8.6x	9.7x	8.8x	14.6x	15.1x	13.3x	16.04	17.8x	15.3x
Inficon Holding AG	13.5x	16.5x	15.4x	15.7x	18.6x	17.1x	20.78	25.4x	23.3x
Also Holding AG	6.7x	10.4x	9.3x	8.6x	11.8x	10.5x	10.17	16.6x	14.6x
Comet Holding AG	13.58	17.5x	14.6x	19.38	22.9x	19.5x	26.74	31.8x	27.6x
Cicor Technologies	8.62	NA	NA	13.52	NA	NA	17.24	NA	NA
Datacolor AG	11.25	10.3x	NA	16.27	14.4x	NA	22.76	NA	NA
Median	9.9x	13.5x	14.6x	15.2x	16.9x	17.1x	18.0x	25.4x	23.3x
High	14.2x	18.9x	18.5x	19.4x	22.9x	21.2x	26.7x	31.8x	27.6x
Low	5.9x	9.7x	8.8x	7.3x	11.8x	10.5x	10.2x	16.6x	14.6x
Premium (disc) to Industry peers	(5%)	(14%)	(29%)	17%	(1%)	(13%)	17%	NA	(19%)

Source: Bloomberg (as on 11 May 2017)

## DETAILED FINANCIAL STATEMENTS

### Income Statement

CHF mn (except per share)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
EMC sales	106	110	110	95	94	95	97
PM sales	46	54	67	64	45	48	49
AM sales	25	31	37	43	46	50	53
<b>Sales</b>	<b>177</b>	<b>195</b>	<b>215</b>	<b>202</b>	<b>186</b>	<b>193</b>	<b>199</b>
Cost of goods sold	(128)	(142)	(152)	(145)	(138)	(135)	(139)
<b>Gross profit</b>	<b>49</b>	<b>53</b>	<b>63</b>	<b>57</b>	<b>47</b>	<b>57</b>	<b>60</b>
Marketing and sales	(17)	(17)	(18)	(18)	(18)	(17)	(17)
R&D expenses	(14)	(15)	(15)	(16)	(16)	(17)	(17)
General and administration	(11)	(10)	(13)	(12)	(11)	(11)	(12)
Other income	1	0	0	1	0	0	0
Total operating costs	(41)	(42)	(47)	(46)	(46)	(45)	(46)
<b>EBITA</b>	<b>10</b>	<b>12</b>	<b>18</b>	<b>11</b>	<b>7</b>	<b>12</b>	<b>12</b>
<b>Operating profit (EBIT)</b>	<b>7</b>	<b>9</b>	<b>15</b>	<b>11</b>	<b>2</b>	<b>12</b>	<b>14</b>
Depreciation	4	4	4	5	5	5	6
Amortisation of intangible assets	3	3	3	3	1	0	0
<b>EBITDA</b>	<b>15</b>	<b>17</b>	<b>23</b>	<b>19</b>	<b>12</b>	<b>18</b>	<b>20</b>
Finance costs	(4)	(7)	(7)	(5)	(3)	(1)	(1)
Finance income	2	5	6	4	2	0	0
Total financial income (expenses)	(2)	(2)	(1)	(1)	(1)	(0)	(0)
Profit before taxes	5	7	14	10	0	12	13
Taxation	(1)	(1)	(1)	(2)	0	(3)	(3)
Profit attributable to the parent	4	6	13	8	0	9	10
<b>Basic EPS</b>	<b>6.2</b>	<b>9.7</b>	<b>19.9</b>	<b>12.1</b>	<b>0.6</b>	<b>14.1</b>	<b>16.0</b>
<b>Diluted EPS</b>	<b>6.0</b>	<b>9.6</b>	<b>19.8</b>	<b>12.1</b>	<b>0.6</b>	<b>14.1</b>	<b>16.0</b>
DPS	3.5	4.5	6.5	6.5	0.0	2.8	4.0

Source: Research Dynamics, Company data

### Key Ratios

	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Growth Ratios</b>							
Sales Growth	(3%)	10%	10%	(6%)	(8%)	4%	3%
EMC division	(18%)	4%	0%	(13%)	(2%)	2%	2%
PM division	29%	16%	25%	(5%)	(29%)	5%	3%
AM division	40%	27%	19%	15%	8%	8%	6%
Operating profit Growth	(43%)	28%	62%	(28%)	(85%)	686%	12%
Net Income Growth	(61%)	57%	106%	(39%)	(95%)	2218%	13%
<b>Profitability Ratios</b>							
Operating margin (%)	4%	5%	7%	5%	1%	6%	7%
EMC division (OPM)	12%	13%	14%	10%	10%	14%	12%
PM division (OPM)	(1%)	5%	6%	3%	(20%)	(12%)	(6%)
AM division (OPM)	2%	(7%)	7%	15%	24%	21%	21%
EBITDA Margin %	8%	9%	11%	9%	6%	9%	10%
Net Margin (%)	2%	3.1%	5.9%	3.8%	0.2%	4.6%	5.1%
<b>Return Ratios</b>							
Profit Margin	2%	3%	6%	4%	0%	5%	5%
Asset Turnover	1.3x	1.4x	1.4x	1.4x	1.5x	1.5x	1.4x
Financial Leverage	2.4x	2.3x	2.3x	2.4x	2.6x	2.5x	2.3x
Dupont ROE (%)	7%	10%	20%	13%	1%	17%	17%
ROCE (%)	8%	11%	15%	12%	2%	14%	14%
ROA (%)	3%	4%	8%	5%	0%	7%	7%
<b>Leverage Ratios</b>							
Debt - Equity Ratio	0.6x	0.5x	0.5x	0.8x	0.6x	0.5x	0.5x
Net Debt - Equity Ratio	0.4x	0.2x	0.2x	0.3x	0.3x	0.2x	0.1x
Interest Coverage	4.9x	6.4x	15.2x	10.9x	1.9x	16.8x	16.4x
<b>Liquidity Ratios</b>							
Current Ratio	2.2x	2.0x	2.1x	2.5x	2.1x	2.3x	2.5x
Quick Ratio	1.4x	1.4x	1.4x	1.7x	1.3x	1.6x	1.7x
<b>Valuation Ratios</b>							
EV/EBITDA	11.8x	9.1x	8.8x	11.1x	17.5x	11.6x	10.5x
P/E	37.9x	23.3x	14.8x	24.8x	na	21.3x	18.8x
P/BV	2.5x	2.3x	2.8x	3.8x	4.1x	3.4x	3.0x

Source: Research Dynamics, Bloomberg, Company data

### Balance Sheet

CHF mn	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Assets</b>							
Non-current assets							
PPE	21.1	20.9	24.8	22.7	22.5	22.8	28.2
Intangible assets	22.3	19.6	24.1	2.1	1.7	1.3	1.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	13.3	12.5	4.8	2.0	2.0	2.0	2.0
Deferred tax	2.9	3.0	3.7	8.4	10.9	10.9	10.9
<b>Total Non Current Assets</b>	<b>59.6</b>	<b>56.1</b>	<b>57.4</b>	<b>35.2</b>	<b>37.0</b>	<b>37.0</b>	<b>42.0</b>
Current assets							
Inventories	29.9	28.1	31.3	32.0	30.8	31.5	32.4
Trade receivables	34.8	34.0	38.5	34.7	36.3	37.0	38.2
Income tax receivables	0.6	0.5	0.5	0.0	0.0	0.0	0.0
Other receivables	3.7	3.8	3.2	2.3	3.4	3.4	3.4
Other financial assets	2.1	4.1	4.9	4.7	2.0	2.0	2.0
Cash and cash equivalents	10.3	17.0	18.6	22.7	13.8	20.2	27.1
<b>Total assets</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>131.6</b>	<b>123.3</b>	<b>131.2</b>	<b>145.2</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	40.3	36.5	35.3	28.0	24.1	24.1	22.3
Retained earnings	(0.6)	5.4	10.7	1.7	2.1	11.0	21.2
<b>Total equity</b>	<b>60.3</b>	<b>62.5</b>	<b>66.6</b>	<b>50.4</b>	<b>46.8</b>	<b>55.8</b>	<b>64.1</b>
Non-current liabilities							
Long term borrowings	36.0	29.8	35.1	37.5	29.5	29.5	34.5
Deferred tax liabilities	2.2	2.3	1.2	0.4	0.3	0.3	0.3
Provisions	6.1	5.6	6.1	4.5	5.4	5.4	5.4
<b>Total Non-Current Liab.</b>	<b>44.2</b>	<b>37.6</b>	<b>42.4</b>	<b>42.4</b>	<b>35.2</b>	<b>35.2</b>	<b>40.1</b>
Current liabilities							
Trade and other payables	32.2	40.3	41.9	37.7	36.4	35.3	36.2
Income tax liabilities	1.0	0.7	1.0	0.0	0.0	0.0	0.0
Short term borrowings	0.2	0.5	0.2	0.3	0.3	0.3	0.3
Provisions	2.9	2.0	2.3	0.8	4.7	4.7	4.7
<b>Total Current Liabilities</b>	<b>36.3</b>	<b>43.5</b>	<b>45.4</b>	<b>38.8</b>	<b>41.3</b>	<b>40.2</b>	<b>41.2</b>
<b>Total liabilities</b>	<b>80.5</b>	<b>81.1</b>	<b>87.8</b>	<b>81.2</b>	<b>76.5</b>	<b>75.4</b>	<b>81.3</b>
<b>Total equity and liab.</b>	<b>140.8</b>	<b>143.7</b>	<b>154.5</b>	<b>131.6</b>	<b>123.3</b>	<b>131.2</b>	<b>145.5</b>

Source: Research Dynamics, Company data

**Cash Flow Statement**

<i>CHF mn</i>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Net profit for the period	3.9	6.1	12.6	7.7	0.4	9.0	10.1
Non-cash adjustments:	4.6	4.2	4.9	5.1	9.6	5.4	5.8
<b>Change in current assets and liabilities:</b>							
(Increase)/decrease in inventories	0.0	1.3	(1.2)	(2.5)	1.0	(0.7)	(0.8)
(Increase)/decrease in receivables	(3.5)	(0.0)	(0.8)	2.2	(2.2)	(0.7)	(1.2)
(Decrease)/increase in current liabilities	(0.4)	9.0	(0.2)	(3.5)	(1.4)	(1.1)	0.9
Change in operating working capital	(3.9)	10.3	(2.2)	(3.9)	(2.6)	(2.5)	(1.1)
<b>Cash flows from operating activities</b>	<b>4.6</b>	<b>20.7</b>	<b>15.3</b>	<b>9.0</b>	<b>7.4</b>	<b>11.8</b>	<b>14.9</b>
Purchase of PPE	(3.7)	(4.8)	(6.4)	(4.7)	(4.6)	(5.4)	(5.9)
Disposal of PPE	1.4	0.3	0.3	0.3	-	-	-
Purchase of intangible assets	(0.7)	(0.4)	(0.4)	(0.8)	(0.4)	-	-
(Acquisition)/divestment	(0.4)	(0.4)	(8.6)	-	-	-	(5.0)
Change in other assets	(0.0)	(0.9)	(0.7)	(0.6)	1.8	-	-
<b>Cash flow generated (used) in investment activities</b>	<b>(3.4)</b>	<b>(6.2)</b>	<b>(15.8)</b>	<b>(5.7)</b>	<b>(3.3)</b>	<b>(5.4)</b>	<b>(10.9)</b>
Change in treasury shares	(1.0)	(1.1)	(3.1)	(0.8)	(0.7)	-	-
Proceeds from Share issues	0.5	1.2	2.7	0.5	(0.1)	-	-
Repayment of excess share premium	(2.8)	(2.2)	(2.9)	(4.1)	(4.1)	-	(1.8)
Net proceeds/(repayment) from debt	(1.8)	(5.5)	5.2	2.9	(7.9)	-	5.0
Amortization related to finance lease	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	-	-
<b>Cash flow generated (used) in financing</b>	<b>(5.3)</b>	<b>(7.7)</b>	<b>1.8</b>	<b>(1.7)</b>	<b>(12.9)</b>	<b>-</b>	<b>3.2</b>
Exchange (losses)/gains	0.2	(0.2)	0.3	(0.4)	(0.1)	-	(0.3)
<b>Net change in cash</b>	<b>(4.0)</b>	<b>6.6</b>	<b>1.6</b>	<b>1.1</b>	<b>(8.9)</b>	<b>6.4</b>	<b>6.9</b>
Opening cash balance	14.2	10.3	16.9	21.6	22.7	13.8	20.2
<b>Closing cash balance</b>	<b>10.3</b>	<b>16.9</b>	<b>18.5</b>	<b>22.7</b>	<b>13.8</b>	<b>20.2</b>	<b>27.1</b>

Source: Research Dynamics, Company data

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