

Schaffner Holding AG

Switzerland | Industrial Goods & Services

FY 2017 update

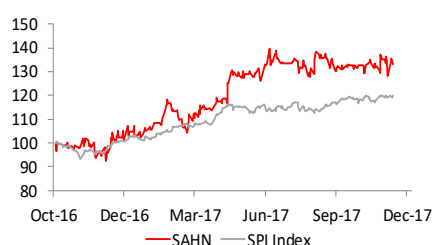
11 December 2017

Company Data

Price:	CHF 319.25
Market Cap:	CHF 203.0mn
Free Float (% of total shares):	55.3%
No. of shares:	635'901
Avg. traded volume (1 year):	500
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 08 December 2017)

Share Price Movement (Rebased to 100)



Source: Bloomberg

Key Financial Data

	2015	2016	2017	2018E
Sales	201.8	185.6	195.7	202.0
EBITDA %	9.2%	6.3%	9.5%	8.7%
EBIT %	5.4%	0.7%	5.9%	5.9%
Net Margin %	3.8%	0.1%	4.5%	4.5%
Basic EPS	12.14	0.29	13.77	14.44
Diluted EPS	12.08	0.29	13.76	14.43
DPS	6.5	0.0	6.5	3.6
Equity Ratio %	38.3%	37.6%	39.6%	43.3%
Capex	4.7	4.6	5.3	5.8
P/E	18.0	829.2	23.2	22.1
EV/EBITDA	8.2	14.5	13.1	12.1
EV/EBIT	14.0	123.3	18.6	17.9

Next Events

22 th Annual General Meeting	11 Jan 2018
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Markedly improved profitability amid pricing pressure

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.

- **Increased profitability and strong order pipeline ensures sustainable growth**

Schaffner reported a healthy set of numbers for the year with net income at CHF8.7mn (vs. CHF0.2mn in FY2016) thanks to significant growth in Europe (+11.4%) and North American (+4.3% y/y) regions. Operational efficiency in the underlying segments managed to more than offset the increased raw material prices that prevailed throughout the year. Management reiterated its target of organic sales growth of 5% and EBIT margin above 8% over the medium term. We believe this target could be achieved due to (1) investments in R&D that focus on EMC filters for electromobility applications and the launch of active harmonic filters in FY2018 (2) a healthy order book ensuring a steady revenue stream for the company going forward and (3) a continued turnaround in the Power Magnetics division should make a substantial contribution in terms of sales and margin improvements. The group's recent proposal of dividend distribution amounting to CHF6.5 per share (new pay-out ratio: 40-50% of net profit) bodes well for the company by showing commitment to the shareholders. Change in top-management at the CEO and COO level is expected to bring about new leadership skills.

- **Revenue growth and considerable progress across segments**

Schaffner reported net sales of CHF195.7mn (+5.5% y/y, +6.6% in local currency) for FY2017 largely driven by growth across all segments. It witnessed strong revenue growth in Europe (+11.4% y/y) and North America (+4.3% y/y) while Asia remained flat. In terms of markets, machine tools and robotics business in the EMC division saw good growth (revenue up 40% y/y) and sales for rail technology products in the PM segment grew by 8% y/y. The company's order intake expanded to CHF199.5mn (+6.5% y/y) which provides room for further growth, the book-to-bill ratio increasing a tick to 1.02 (1.01 in FY2016). EBIT grew significantly to CHF11.5mn (vs. CHF1.4mn in FY2016) with an encouraging EBIT margin at 5.9% (vs. 0.7% in FY2016). Net income amounted to CHF8.7mn (vs. CHF0.2mn in FY2016).

- **Segmental performance**

EMC: The EMC division is the highest contributor towards the company's sales (50.2% vs. 50.6% in FY2016). Its top line grew 4.7% y/y to CHF98.3mn; largely driven by growth in the number of new customers globally. Power Quality business under EMC segment extended its service and sales network with the launch of second generation passive harmonic filters. Though raw material prices increased (e.g. copper) in FY2017, operational excellence in the EMC segment managed to reduce production cost. Segment profit improved significantly to CHF13.3mn (+52.9% y/y) in FY2017.

PM: The PM division accounted for 25.6% (vs. 24.5% in FY2016) of Schaffner's sales in FY2017. Its sales increased to CHF50.0mn (+10.3% y/y) with a reduction in segment loss of CHF7.0mn (vs. CHF 13.8mn in FY2016). Growth has largely come from the US and China. The segment showed signs of improvement post the structural adjustments and establishment of new manufacturing set-up in Europe and North America. In addition, management expects further improvement in the situation with direct supply to OEM manufacturers in North America and attractive business opportunities in rail technology market and electric vehicle market.

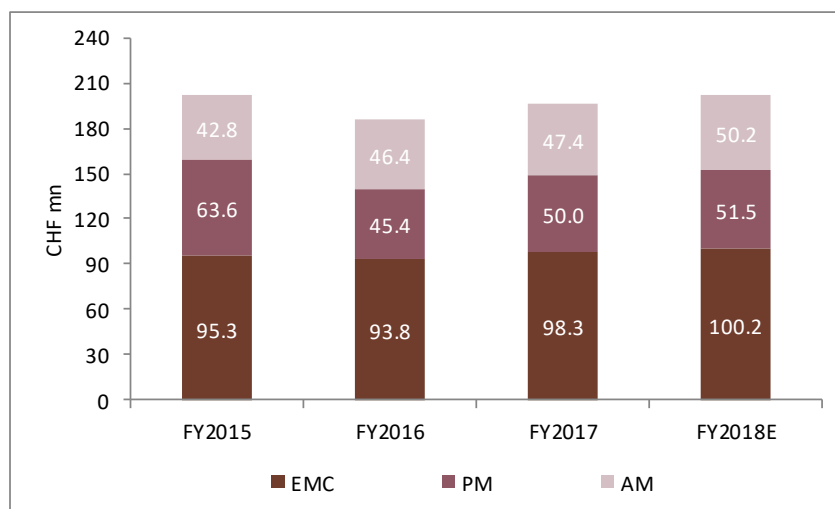
AM: AM segment revenue expanded slightly (+2.2% y/y) to CHF 47.4mn. However, segment profit decreased by 16.8% y/y to CHF9.4mn with a reduction of 460bps in segment profit margin to a still attractive level of 19.9% (side note: management has always indicated that a >20% EBIT margin would not be sustainable). Demand was lower in 3Q17 especially in North America and South Korea but improved again in 4Q17. Its keyless entry business contributed c.90% in divisional revenue.

With several development projects for filter solutions for electric vehicles, AM is building a base for future growth. Management expects that the electric vehicle market should contribute a significantly higher share towards AM's sales in two to three years. Although the AM division achieved a very attractive margin of over 20% in the past years, management now stated that a margin of 15-20% in a maturing keyless locking system market is more realistic going forward.

• **Optimistic outlook**

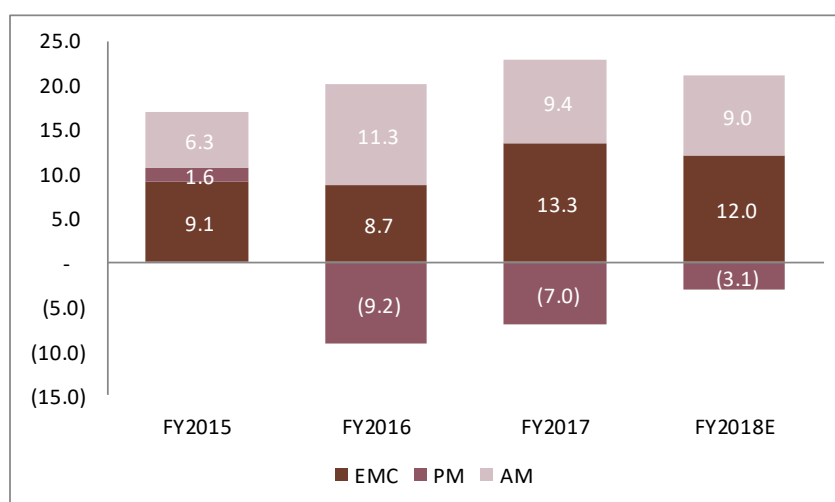
Schaffner management is hopeful about the outlook for the business on account of strong business opportunities in the area of rail technology, energy efficient systems, electric vehicles and electromobility. The company has guided its EBIT margin to be in mid-single digits for FY2018 despite increasing raw material prices and pricing pressure in some of its market segments. Schaffner has reiterated its target of organic sales growth of 5% annually and a minimum EBIT margin of 8% in medium term.

Exhibit 1: Division-wise revenue performance



Source: Company reports

Exhibit 2: Division-wise profitability



Source: Company reports

- **High R&D confirms company's growth strategy:** Schaffner continued to invest in R&D activities with the respective spending amounting to CHF16.7mn in FY2017 (same as in FY2016). This confirms its growth strategy to focus on areas with strong potential such as drive systems, machine & robotics and electromobility. In FY2017, the group was largely involved in development of new EMC filters for the electromobility market. In the field of Power Quality, Schaffner has launched a second generation of passive harmonic filters and plans to launch a new generation of active harmonic filters in FY2018.

- Change in management:** Marc Aeschlimann was appointed as Chief Executive Officer (CEO) of Schaffner as of 01 Sep 2017. He took over the position from the Chief Financial Officer (CFO), Kurt Ledermann, who has done an excellent job as CEO ad-interim since mid-2016. We believe Mr. Aeschlimann’s expertise and experience in the electrical industry will strengthen the management team and should help Schaffner to meet its long-term growth targets. Max Baenziger was appointed as Chief Operating Officer (COO) and member of executive committee as of April 2018.
- Valuation looks attractive based on discount to peers on 2018 estimates:** Based on 2018 median EV/EBITDA estimates, the company is trading at a 19% premium to product peers while simultaneously trading at a discount of 6% to its industry peers. Based on 3-year average EV/EBITDA, the company trades at a discount of 7% to product peers and 5% discount to industry peers. However, we believe the group’s improved profitability, strong order pipeline, strengthening in management team and recent multi-year contract wins should help Schaffner to achieve its medium and long-term target (organic sales growth of 5% and EBIT margin of more than 8%). In addition, a turnaround in the Power Magnetics division would have a substantial impact on group sales and margins. The intrinsic price of the group using the DCF methodology (WACC: 6.9%, terminal growth rate: 1%) comes to CHF 348, which corresponds to an 9% upside to the current share price.

Sensitivity Table						
WACC						
Terminal growth rate		4.5%	5.5%	6.9%	7.5%	8.5%
	0.25%	502	401	313	283	245
	0.50%	530	419	324	291	252
	0.75%	562	438	335	301	258
	1.00%	599	460	348	310	266
	1.50%	690	511	376	333	281
	2.00%	818	578	410	359	300
	2.50%	1011	666	452	390	321

Exhibit 4: Schaffner – Comparison with Product peers

Company (Product peers)	EV/EBITDA			EV/EBIT				P/E			
	3 year average	CY2017E	CY2018E	3 year average	5 year average	CY2017E	CY2018E	3 year average	5 year average	CY2017E	CY2018E
Schaffner Holding AG	9.4x	13.1x	12.1x	17.7x	12.3x	18.6x	17.9x	21.0x	24.8x	23.2x	22.1x
Omron Corp	8.7x	11.3x	10.5x	12.0x	24.0x	16.1x	13.5x	18.1x	NA	23.1x	21.0x
Laird Plc	13.3x	7.5x	7.0x	30.9x	9.1x	11.3x	10.4x	20.3x	9.5x	13.7x	12.9x
Yokogawa Electric Corp	8.7x	10.5x	9.7x	13.1x	16.6x	13.6x	13.9x	20.1x	27.3x	23.3x	19.7x
Lem Holding SA	14.2x	27.9x	25.4x	16.4x	11.7x	31.8x	29.4x	18.8x	16.2x	39.2x	36.5x
Komax Holding AG	10.1x	17.2x	15.3x	12.8x	16.4x	20.7x	18.1x	15.8x	26.9x	25.4x	22.0x
Gavazzi Carlo Holding AG	6.3x	10.6x	10.2x	7.6x	4.5x	14.0x	12.4x	13.9x	9.0x	21.4x	20.1x
Apator SA	11.6x	8.4x	7.9x	15.2x	11.3x	11.2x	11.8x	15.2x	12.8x	13.6x	12.1x
Median	10.1x	10.6x	10.2x	13.1x	11.7x	14.0x	13.5x	18.1x	13.7x	23.1x	20.1x
High	14.2x	27.9x	25.4x	30.9x	24.0x	31.8x	29.4x	20.3x	27.3x	39.2x	36.5x
Low	6.3x	7.5x	7.0x	7.6x	4.5x	11.2x	10.4x	13.9x	9.0x	13.6x	12.1x
Premium (disc) to product peers	(7%)	24%	19%	35%	5%	33%	32%	16%	81%	0%	10%

Source: Bloomberg (as on 08 December 2017)

Exhibit 5: Schaffner – Comparison with Industry peers

Company (Industry peers)	EV/EBITDA			EV/EBIT				P/E			
	3 year average	CY2017E	CY2018E	3 year average	5 year average	CY2017E	CY2018E	3 year average	5 year average	CY2017E	CY2018E
Schaffner Holding AG	9.4x	13.1x	12.1x	17.7x	12.3x	18.6x	17.9x	21.0x	24.8x	23.2x	22.1x
Lem Holding SA	14.2x	27.9x	25.4x	16.4x	11.7x	31.8x	29.4x	18.8x	16.2x	39.2x	36.5x
Kudelski SA	8.6x	10.2x	8.5x	14.6x	13.0	18.3x	13.8x	16.04	13.45	21.0x	14.2x
Inficon Holding AG	13.5x	18.0x	16.7x	15.7x	9.1	19.9x	18.4x	20.78	16.48	26.6x	24.3x
Also Holding AG	6.7x	10.7x	9.6x	8.6x	6.9	12.2x	10.8x	10.17	10.79	17.1x	14.9x
Cornet Holding AG	13.58	16.9x	14.5x	19.38	13.4	20.5x	17.8x	26.74	19.09	28.4x	24.2x
Cicor Technologies	8.62	8.7x	7.8x	13.52	8.0	15.8x	13.7x	17.24	8.56	22.8x	16.3x
Datacolor AG	11.25	13.9x	12.9x	16.27	12.7	18.8x	16.1x	22.76	13.45	20.3x	21.6x
Median	9.9x	13.9x	12.9x	15.2x	12.2x	18.8x	16.1x	18.0x	14.8x	22.8x	21.6x
High	14.2x	27.9x	25.4x	19.4x	19.9x	31.8x	29.4x	26.7x	27.7x	39.2x	36.5x
Low	5.9x	8.7x	7.8x	7.3x	6.9x	12.2x	10.8x	10.2x	8.6x	17.1x	14.2x
Premium (disc) to Industry peers	(5%)	(6%)	(6%)	16%	1%	(1%)	12%	17%	68%	2%	2%

Source: Bloomberg (as on 08 December 2017)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY12	FY13	FY14	FY15	FY16	FY17	FY18E
EMC sales	106	110	110	95	94	98	100
PM sales	46	54	67	64	45	50	52
AM sales	25	31	37	43	46	47	50
Sales	177	195	215	202	186	196	202
Cost of goods sold	(128)	(142)	(152)	(145)	(138)	(140)	(143)
Gross profit	49	53	63	57	47	56	59
Marketing and sales	(17)	(17)	(18)	(18)	(18)	(17)	(18)
R& D expenses	(14)	(15)	(15)	(16)	(17)	(17)	(17)
General and administration	(11)	(10)	(13)	(12)	(11)	(10)	(13)
Other income	1	0	0	1	0	0	0
Total operating costs	(41)	(42)	(47)	(46)	(46)	(44)	(48)
EBITA	10	12	18	11	7	12	12
Operating profit (EBIT)	7	9	15	11	1	11	12
Depreciation	4	4	4	5	5	4	5
Amortization of intangible assets	3	3	3	3	1	1	0
EBITDA	15	17	23	19	12	16	18
Finance costs	(4)	(7)	(7)	(5)	(3)	(3)	(1)
Finance income	2	5	6	4	2	3	0
Total financial income (expenses)	(2)	(2)	(1)	(1)	(1)	(1)	(0)
Profit before taxes	5	7	14	10	(0)	11	11
Taxation	(1)	(1)	(1)	(2)	0	(2)	(2)
Profit attributable to the parent	4	6	13	8	0	9	9
Basic EPS	6.2	9.7	19.9	12.1	0.3	13.8	14.4
Diluted EPS	6.0	9.6	19.8	12.1	0.3	13.8	14.4
DPS	3.5	4.5	6.5	6.5	0.0	6.5	3.6

Source: Research Dynamics, Company data

Key Ratios

	FY12	FY13	FY14	FY15	FY16	FY17	FY18E
Growth Ratios							
Sales Growth	(3%)	10%	10%	(6%)	(8%)	5%	3%
EMC division	(18%)	4%	0%	(13%)	(2%)	5%	2%
PM division	29%	16%	25%	(5%)	(29%)	10%	3%
AM division	40%	27%	19%	15%	8%	2%	6%
Operating profit Growth	(43%)	28%	62%	(28%)	(87%)	740%	4%
Net Income Growth	(61%)	57%	106%	(39%)	(98%)	4654%	5%
Profitability Ratios (%)							
Operating margin (%)	4%	5%	7%	5%	1%	6%	6%
EMC division (OPM)	12%	13%	14%	10%	9%	14%	12%
PM division (OPM)	(1%)	5%	6%	3%	(20%)	(14%)	(6%)
AM division (OPM)	2%	(7%)	7%	15%	24%	20%	18%
EBITDA Margin %	8%	9%	11%	9%	6%	10%	9%
Net Margin (%)	2%	3.1%	5.9%	3.8%	0.1%	4.5%	4.5%
Return Ratios							
Profit Margin	2%	3%	6%	4%	0%	4%	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	2.6x	2.5x
Dupont ROE (%)	7%	10%	20%	13%	0%	17%	16%
ROCE (%)	8%	11%	15%	12%	2%	14%	13%
ROA (%)	3%	4%	8%	5%	0%	7%	7%
Leverage Ratios							
Debt - Equity Ratio	0.6x	0.5x	0.5x	0.8x	0.6x	0.5x	0.6x
Net Debt - Equity Ratio	0.4x	0.2x	0.2x	0.3x	0.3x	0.2x	0.2x
Interest Coverage	4.9x	6.4x	15.2x	10.9x	1.7x	10.3x	15.0x
Liquidity Ratios							
Current Ratio	2.2x	2.0x	2.1x	2.5x	2.1x	2.1x	2.2x
Quick Ratio	1.4x	1.4x	1.4x	1.7x	1.3x	1.3x	1.5x
Valuation Ratios							
EV/EBITDA	11.8x	9.1x	8.8x	8.2x	14.5x	13.1x	12.1x
P/E	37.9x	23.3x	14.8x	18.0x	na	23.2x	22.1x
P/BV	2.5x	2.3x	2.8x	2.8x	3.3x	3.7x	3.4x

Source: Research Dynamics, Bloomberg, Company data

Balance Sheet

<i>In CHF mn</i>	FY12	FY13	FY14	FY15	FY16	FY17	FY18E
Assets							
Non-current assets							
PPE	21.1	20.9	24.8	22.7	22.5	23.1	28.4
Intangible assets	22.3	19.6	24.1	2.1	1.1	0.7	0.4
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	1.1	1.1
Deferred tax	2.9	3.0	3.7	8.4	10.9	10.8	10.8
Total Non-Current Assets	59.6	56.1	57.4	35.2	36.4	35.7	40.7
Current assets							
Inventories	29.9	28.1	31.3	32.0	30.8	37.2	35.2
Trade receivables	34.8	34.0	38.5	34.7	36.3	41.6	41.0
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	4.4	4.4
Other financial assets	2.1	4.1	4.9	4.7	2.0	1.9	1.9
Cash and cash equivalents	10.3	17.0	18.6	22.7	13.8	16.5	21.7
Total assets	140.8	143.7	154.5	131.6	122.7	137.3	144.8
Shareholders' Equity and Liabilities							
Share capital							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus							
Reserves & Surplus	40.3	36.5	35.3	28.0	24.1	23.5	19.4
Retained earnings	(0.6)	5.4	10.7	1.7	1.5	10.2	19.4
Total equity	60.3	62.5	66.6	50.4	46.2	54.4	59.4
Non-current liabilities							
Long term borrowings	36.0	29.8	35.1	37.5	29.5	28.9	33.7
Deferred tax liabilities	2.2	2.3	1.2	0.4	0.3	0.4	0.4
Provisions	6.1	5.6	6.1	4.5	5.4	4.5	4.5
Total Non-Current Liab.	44.2	37.6	42.4	42.4	35.2	33.7	38.6
Current liabilities							
Trade and other payables	32.2	40.3	41.9	37.7	36.4	47.5	44.9
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	0.2	0.3
Provisions	2.9	2.0	2.3	0.8	4.7	1.5	1.5
Total Current Liabilities	36.3	43.5	45.4	38.8	41.3	49.2	46.8
Total liabilities	80.5	81.1	87.8	81.2	76.5	82.9	85.3
Total equity and liab.	140.8	143.7	154.5	131.6	122.7	137.3	144.8

Source: Research Dynamics, Company data

Cash Flow Statement

<i>In CHF mn</i>	FY12	FY13	FY14	FY15	FY16	FY17	FY18E
Net profit for the period	3.9	6.1	12.6	7.7	0.2	8.7	9.2
Non-cash adjustments:	4.6	4.2	4.9	5.1	9.6	0.3	5.7
Change in current assets and liabilities:							
(Increase)/decrease in inventories	0.0	1.3	(1.2)	(2.5)	1.0	(5.6)	2.1
(Increase)/decrease in receivables	(3.5)	(0.0)	(0.8)	2.2	(2.2)	(4.6)	0.7
(Decrease)/increase in current liabilities	(0.4)	9.0	(0.2)	(3.5)	(1.4)	10.7	(2.6)
Change in operating working capital	(3.9)	10.3	(2.2)	(3.9)	(2.6)	0.5	0.2
Cash flows from operating activities	4.6	20.7	15.3	9.0	7.2	9.6	15.1
Purchase of PPE	(3.7)	(4.8)	(6.4)	(4.7)	(4.6)	(5.3)	(5.8)
Disposal of PPE	1.4	0.3	0.3	0.3	-	1.0	-
Purchase of intangible assets	(0.7)	(0.4)	(0.4)	(0.8)	(0.2)	(0.3)	-
(Acquisition)/divestment	(0.4)	(0.4)	(8.6)	-	-	-	(5.0)
Change in other assets	(0.0)	(0.9)	(0.7)	(0.6)	1.8	0.7	-
Cash flow generated (used) in investment activities	(3.4)	(6.2)	(15.8)	(5.7)	(3.1)	(3.8)	(10.8)
Change in treasury shares	(1.0)	(1.1)	(3.1)	(0.8)	(0.7)	(1.0)	-
Proceeds from Share issues	0.5	1.2	2.7	0.5	(0.1)	(0.9)	-
Repayment of excess share premium	(2.8)	(2.2)	(2.9)	(4.1)	(4.1)	-	(4.1)
Net proceeds/(repayment) from debt	(1.8)	(5.5)	5.2	2.9	(7.9)	(1.0)	5.0
Amortization related to finance lease	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	-
Cash flow generated (used) in financing	(5.3)	(7.7)	1.8	(1.7)	(12.9)	(3.1)	0.9
Exchange (losses)/gains	0.2	(0.2)	0.3	(0.4)	(0.1)	0.0	-
Net change in cash	(4.0)	6.6	1.6	1.1	(8.9)	2.7	5.2
Opening cash balance	14.2	10.3	16.9	21.6	22.7	13.8	16.5
Closing cash balance	10.3	16.9	18.5	22.7	13.8	16.5	21.7

Source: Research Dynamics, Company data

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