

Schaffner Holding AG

Switzerland | Industrial Goods & Services

1H18 earnings update

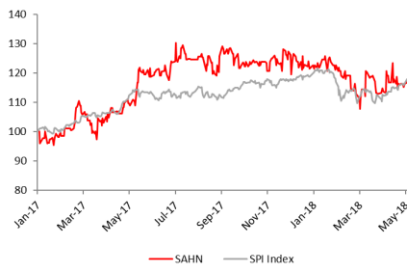
14 May 2018

Company Data

Price:	CHF 324.0
Market Cap:	CHF 206.1mn
Free Float (% of total shares):	75.5%
No. of shares:	635'901
Avg. traded volume (3 month):	356
Bloomberg:	SAHN SW
Reuters:	SAHN.S
ISIN:	CH0009062099

Source: Bloomberg (As of 14 May 2018)

Share Price Movement (Rebased to 100)



Source: Bloomberg

Key Financial Data

	2016	2017	2018E	2019E
Sales	185.6	195.7	207.5	218.2
EBITDA%	6.3%	9.5%	10.6%	10.6%
EBIT%	0.7%	5.9%	6.4%	7.8%
Net Margin%	0.1%	4.5%	3.6%	6.0%
Basic EPS	0.29	13.77	11.67	20.59
Diluted EPS	0.29	13.76	11.66	20.57
DPS	0.0	6.5	2.9	6.2
Equity Ratio%	37.6%	39.6%	40.3%	40.8%
Capex	4.6	5.3	5.8	6.7
P/E	NM	22.8	27.8	15.8
EV/EBITDA	14.5	12.8	9.5	9.0
EV/EBIT	NM	18.3	15.7	12.4

Next Events

Publication of Annual Report 2017/18 (full-year results)	06 Dec 2018
23rd Annual General Meeting	15 Jan 2019

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Strong 1H numbers with 14.5% organic growth, but turnaround in Power Magnetics weighting on group result

- ### EBIT above expectations, supported by market share gains in EMC division

Schaffner reported a healthy set of numbers for the period with EBIT of CHF 9.0mn (+50% y/y), included a one-off positive impact from insurance payments for the fire at the Automotive plant in Thailand and restructuring provision pertaining to the Power Magnetics (PM) division. Adjusted EBIT came in at CHF 7.5mn (margin: 6.9%), largely driven by higher volumes, partially offset by still negative margins in the PM division and overhead costs pertaining to expanding the management team (new CEO, new management at PM). Net income was at CHF 4.0mn (CHF 4.2mn in 1H17), despite one-time adjustments arising out of the US Tax Cuts and Jobs Act. Adjusted net income stood at CHF 5.7mn. Management reiterated its target of organic sales growth of 5% and an EBIT margin of > 8% for the medium term. We believe the sales target could be overachieved this year on the back of a healthy order book of CHF114.4mn (74% of total order intake belongs to high margin EMC and Automotive segments), which ensures steady revenue stream for the company in the upcoming period.

- ### Broad-based growth across segments lifts top-line

Schaffner reported organic net sales of CHF 108.3mn (+14.5% y/y, +10.2% in local currency) for 1H18 driven by broad-based growth across segments and regions. Revenue growth was particularly positively impacted by the drive systems, rail technology and power supplies, while automotive electronics and machinery & robotics maintained prior year high levels. Three of the company's core markets i.e. automotive electronics (24%), drive systems (23%) and power supplies (14%) accounted for ~60% of the company's total sales. Europe remained the key market for Schaffner with a contribution of 44.9% of total revenues, followed by Asia (35.9%) and North America (19.2%). The company's order intake surged 14.8% y/y to CHF 114.4mn which provides revenue visibility for the upcoming period. EBIT grew significantly to CHF 9.0mn (1H17: CHF 6.0mn) with an EBIT margin at 8.3% (+190bps y/y). The company's net income stood at CHF 4.0mn (1H17: CHF 4.2mn). Under the period under review, the EMC division expanded its market leader position thanks to project wins against competition, while the AM division maintained its strong market position despite a minor setback in the form of the fire at the Thailand plant. In 1H18, Schaffner introduced additional measures in the PM division to speed-up the turnaround.

- ### Estimate adjustments:

On the back of the good set of numbers, we adjusted our estimates for improved operating conditions in the company's core markets. Accordingly, we increased revenue growth to 5.1% for the FY19-22E period (4.6% previously), primarily driven by the EMC division. On EBITDA, we now expect CHF 22.0mn for FY17-18, increasing to CHF 28.7mn in FY22E, as compared to our previous estimate of CHF 27.9mn in FY22E.

- ### Valuation attractive based on discount to peers

Based on 2018 median EV/EBITDA estimates, the company is trading at a 9% discount to product peers while simultaneously trading at a discount of 38% 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. The intrinsic price of the group using the DCF methodology (WACC: 7%, terminal growth rate: 1%) comes to CHF 364, which corresponds to an 12% upside to the current share price. We believe the company's improved profitability, strong order pipeline, strengthening of the management team and recent good operating performance should help Schaffner to achieve its medium and long term target (organic sales growth of 5% and EBIT margin of more than 8%). Furthermore, a targeted dividend payout of 40-50% of the net profit bodes well for long-term investors.

Segmental performance:

Electro Magnetics Components (EMC): The EMC division is the major contributor to Group sales (51.2% of 1H18 revenues). In the semester under review, the top line soared 21.4% y/y to CHF 55.5mn, resulting in the expansion of its market leading position. The buoyant growth was driven on the one side by customers benefiting from the generally friendly market environment and on the other by EMC winning important projects against competition, thus expanding market shares. The robust revenue growth was driven by strong performance across business lines, but also all geographic regions.. The launch of the new generation active harmonic filters in March 2018 will furthermore help the Power Quality (PQ) business in the EMC segment to outpace the overall growth in EMC. Strong operational efficiency and implementation of price adjustments ensured stable segment margins at 13.6%. Despite continued pressure on margins and higher material costs EMC's profit improved significantly to CHF 7.5mn (+21.4% y/y) in 1H18.

Power Magnetics (PM): The PM division accounted for 25.0% (24.7% in 1H17) of total sales in 1H18. While sales grew to CHF 27.1mn (+15.8% y/y), the segment still reported a loss of CHF 3.2mn excluding one-time effects (loss of CHF 3.5mn in 1H17). The top-line grew despite a weak start in North America in 1Q due to lacking or postponed projects (according to management, sales improved sequentially in 2Q). The operating performance was impacted by additional costs of CHF 1.3 mn pertaining to acceleration of the restructuring program and streamlining. Since renegotiation of existing contracts and negotiation of new contracts with better conditions is taking quite some time to feed through the numbers, the division still reported an adjusted negative EBIT of CHF 3.2mn (vs. CHF 3.5mn), resulting in a negative EBIT margin of 12.0% (1H17: -14.8%), before restructuring costs. However, the management expects to finalize the turnaround of the Power Magnetics division by next year. We expect a turnaround in the division to have a substantial impact on group margins and earnings.

Automotive (AM): AM division revenues (23.7% of 1H18 group sales) improved marginally by 0.8% y/y to CHF 25.7mn, thereby maintaining the high base created in the previous year. Segment profit of CHF 8.9mn (+50.8% y/y) included the positive impact from an insurance payment of CHF 2.8mn) for the fire at the Schaffner plant in Thailand (equipment was replaced at acquisition costs, while it was already written off to a large extent). The segment margin came in at 34.5% (1H17: 23.1%), but the adjusted operating margin still increased by 50bps y/y to 23.6%. In 1H18, additional projects for filters, which are used in e-mobility, were pushed ahead. However, management expects to reap the positive impact of those projects only in the mid-term.

Outlook

Schaffner management anticipates a positive outlook for the current business year on account of strong opportunities in the core markets of motor drives, rail technology, power supplies and machine tools. Moreover, the company remains optimistic on mid-term opportunities with filters for electric vehicles. The company has guided its EBIT margin for 2H18 at similar levels of 1H18. Schaffner has reiterated its over-the cycle target of organic sales growth of 5% annually and a minimum EBIT margin of 8% in medium term, even as uncertainties pertaining to tariffs and trade barriers on material prices prevail.

Exhibit 2: Division-wise revenue performance

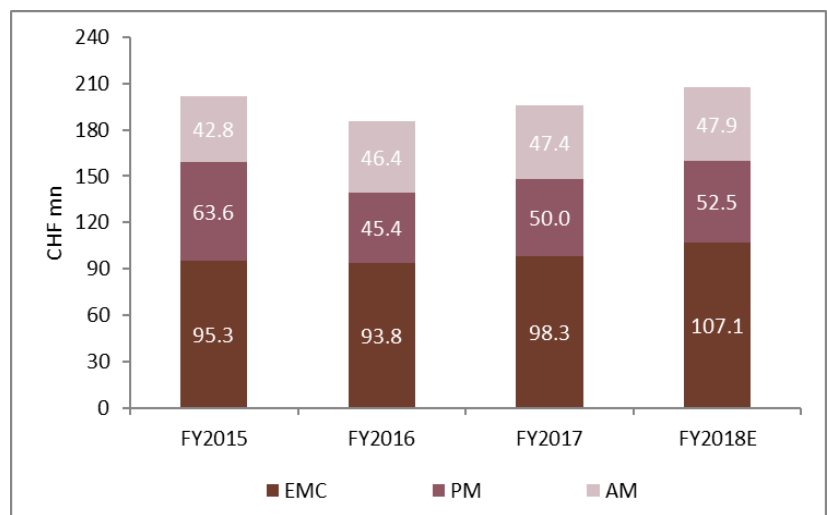
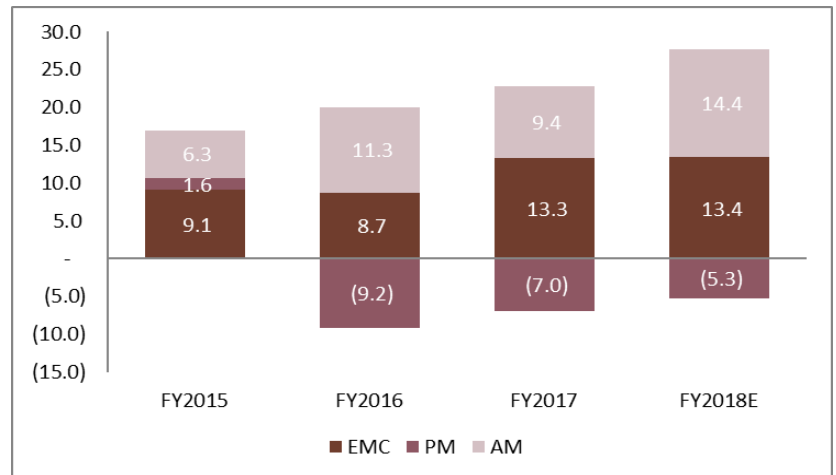


Exhibit 3: Division-wise profitability



Source: Company reports

• **Changes in estimates:**

We have modified our model to adjust for improved operating conditions in the core markets of the company. Accordingly, revenue growth is now modelled at an average of 5.1% for FY19-22E, as compared to the previous average of 4.6% for the same period, driven primarily by the EMC division (avg. growth: 6.5% vs. 4.3%). While PM revenue growth is anticipated to increase marginally to 3.6% (earlier at 3.3%), AM revenue growth is expected to moderate to 4.5% (vs. 6.8%) considering the high base achieved in the recent period. Moreover, EBITDA is anticipated to come in at CHF 22.0mn for FY17-18, while increasing to CHF 28.7mn in FY22E, as compared to previous estimate of CHF 27.9mn in FY22E.

Exhibit 4: Schaffner – Comparison with Product peers

Company (Product peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Schaffner Holding AG	9.4x	9.5x	9.0x	17.7x	15.7x	12.4x	21.0x	27.8x	15.8x
Omron Corp	8.7x	10.9x	10.1x	12.0x	14.3x	13.3x	18.1x	18.8x	17.1x
Laird Plc	13.3x	6.5x	5.8x	30.9x	9.8x	8.6x	20.3x	18.4x	16.1x
Yokogawa Electric Corp	8.7x	10.5x	9.5x	13.1x	14.7x	12.5x	20.1x	20.0x	17.1x
Lem Holding SA	14.2x	24.7x	22.5x	16.4x	28.5x	26.1x	18.8x	35.8x	33.4x
Komax Holding AG	10.1x	16.1x	14.4x	12.8x	19.0x	17.2x	15.8x	21.0x	18.8x
Gavazzi Carlo Holding AG	6.3x	10.1x	9.3x	7.6x	12.3x	11.2x	13.9x	20.3x	18.2x
Apator SA	11.6x	8.5x	8.1x	15.2x	12.5x	13.1x	15.2x	13.3x	12.8x
Median	10.1x	10.5x	9.5x	13.1x	14.3x	13.1x	18.1x	20.0x	17.1x
High	14.2x	24.7x	22.5x	30.9x	28.5x	26.1x	20.3x	35.8x	33.4x
Low	6.3x	6.5x	5.8x	7.6x	9.8x	8.6x	13.9x	13.3x	12.8x
Premium (disc) to product peers	(7%)	(9%)	(5%)	35%	9%	(5%)	16%	39%	(8%)

Source: Bloomberg (as on 14 May 2018)

Exhibit 5: Schaffner – Comparison with Industry peers

Company (Industry peers)	EV/EBITDA			EV/EBIT			P/E		
	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E	3 year average	CY2018E	CY2019E
Schaffner Holding AG	9.4x	9.5x	9.0x	17.7x	15.7x	12.4x	21.0x	27.8x	15.8x
Lem Holding SA	14.2x	24.7x	22.5x	16.4x	28.5x	26.1x	18.8x	35.8x	33.4x
Kudelski SA	8.6x	17.5x	10.1x	14.6x	56.2x	17.1x	16.04	78.2x	11.9x
Inficon Holding AG	13.5x	15.3x	14.5x	15.7x	16.9x	15.9x	20.78	22.5x	21.3x
Also Holding AG	6.7x	9.1x	8.3x	8.6x	10.2x	9.2x	10.17	12.2x	11.0x
Comet Holding AG	13.58	15.7x	13.7x	19.38	19.5x	17.1x	26.74	24.5x	21.5x
Cicor Technologies	8.62	7.5x	6.1x	13.52	12.8x	9.4x	17.24	19.6x	13.8x
Datacolor AG	11.25	14.2x	NA	16.27	19.0x	15.8x	22.76	26.7x	NA
Median	9.9x	15.3x	11.9x	15.2x	19.0x	15.9x	18.0x	24.5x	17.5x
High	14.2x	24.7x	22.5x	19.4x	56.2x	26.1x	26.7x	78.2x	33.4x
Low	5.9x	7.5x	6.1x	7.3x	10.2x	9.2x	10.2x	12.2x	11.0x
Premium (disc) to Industry peers	(5%)	(38%)	(24%)	16%	(18%)	(22%)	17%	13%	(10%)

Source: Bloomberg (as on 14 May 2018)

DETAILED FINANCIAL STATEMENTS

Income Statement

CHF mn (except per share)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
EMC sales	110	110	95	94	98	107	114
PM sales	54	67	64	45	50	53	54
AM sales	31	37	43	46	47	48	50
Sales	195	215	202	186	196	208	218
Cost of goods sold	(142)	(152)	(145)	(138)	(140)	(143)	(157)
Gross profit	53	63	57	47	56	64	61
Marketing and sales	(17)	(18)	(18)	(18)	(17)	(18)	(19)
R& D expenses	(15)	(15)	(16)	(17)	(17)	(17)	(18)
General and administration	(10)	(13)	(12)	(11)	(10)	(13)	(7)
Other income	0	0	1	0	0	3	0
Total operating costs	(42)	(47)	(46)	(46)	(44)	(48)	(44)
EBITA	12	18	11	7	12	12	12
Operating profit (EBIT)	9	15	11	1	11	13	17
Depreciation	4	4	5	5	4	5	6
Amortization of intangible assets	3	3	3	1	1	0	0
EBITDA	17	23	19	12	16	22	23
Finance costs	(7)	(7)	(5)	(3)	(3)	(1)	(1)
Finance income	5	6	4	2	3	0	0
Total financial income (expenses)	(2)	(1)	(1)	(1)	(1)	(0)	(1)
Profit before taxes	7	14	10	(0)	11	13	16
Taxation	(1)	(1)	(2)	0	(2)	(6)	(3)
Profit attributable to the parent	6	13	8	0	9	7	13
Basic EPS	9.7	19.9	12.1	0.3	13.8	11.7	20.6
Diluted EPS	9.6	19.8	12.1	0.3	13.8	11.7	20.6
DPS	4.5	6.5	6.5	0.0	6.5	2.9	6.2

Source: Research Dynamics, Company data

Key Ratios

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Growth Ratios							
Sales Growth	10%	10%	(6%)	(8%)	5%	6%	5%
EMC division	4%	0%	(13%)	(2%)	5%	9%	6%
PM division	16%	25%	(5%)	(29%)	10%	5%	3%
AM division	27%	19%	15%	8%	2%	1%	5%
Operating profit Growth	28%	62%	(28%)	(87%)	740%	17%	26%
Net Income Growth	57%	106%	(39%)	(98%)	n/m	(15%)	76%
Profitability Ratios (%)							
Operating margin (%)	5%	7%	5%	1%	6%	6%	8%
EMC division (OPM)	13%	14%	10%	9%	14%	13%	10%
PM division (OPM)	5%	6%	3%	(20%)	(14%)	(10%)	2%
AM division (OPM)	(7%)	7%	15%	24%	20%	30%	18%
EBITDA Margin %	9%	11%	9%	6%	10%	11%	11%
Net Margin (%)	3%	6%	4%	0%	4%	4%	6%
Return Ratios							
Profit Margin	3%	6%	4%	0%	4%	4%	6%
Asset Turnover	1.4x	1.4x	1.4x	1.5x	1.5x	1.5x	1.4x
Financial Leverage	2.3x	2.3x	2.4x	2.6x	2.6x	2.5x	2.5x
Dupont ROE (%)	10%	20%	13%	0%	17%	13%	21%
ROCE (%)	11%	15%	12%	2%	14%	15%	15%
ROA (%)	4%	8%	5%	0%	7%	5%	8%
Leverage Ratios							
Debt - Equity Ratio	0.5x	0.5x	0.8x	0.6x	0.5x	0.6x	0.6x
Net Debt - Equity Ratio	0.2x	0.2x	0.3x	0.3x	0.2x	0.2x	0.2x
Interest Coverage	6.4x	15.2x	10.9x	1.7x	10.3x	16.8x	17.0x
Liquidity Ratios							
Current Ratio	2.0x	2.1x	2.5x	2.1x	2.1x	2.2x	2.3x
Quick Ratio	1.4x	1.4x	1.7x	1.3x	1.3x	1.5x	1.6x
Valuation Ratios							
EV/EBITDA	9.1x	8.8x	8.2x	14.5x	12.8x	9.5x	9.0x
P/E	23.3x	14.8x	18.0x	na	22.8x	27.8x	15.8x
P/BV	2.3x	2.8x	2.8x	3.3x	3.7x	3.5x	2.9x

Source: Research Dynamics, Bloomberg, Company data

Balance Sheet

<i>In CHF mn</i>	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Assets							
Non-current assets							
PPE	20.9	24.8	22.7	22.5	23.1	28.4	38.8
Intangible assets	19.6	24.1	2.1	1.1	0.7	0.4	0.3
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long term assets	12.5	4.8	2.0	2.0	1.1	1.1	1.1
Deferred tax	3.0	3.7	8.4	10.9	10.8	8.1	8.1
Total Non Current Assets	56.1	57.4	35.2	36.4	35.7	38.0	48.3
Current assets							
Inventories	28.1	31.3	32.0	30.8	37.2	35.4	38.8
Trade receivables	34.0	38.5	34.7	36.3	41.6	42.1	44.2
Income tax receivables	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Other receivables	3.8	3.2	2.3	3.4	4.4	4.4	4.4
Other financial assets	4.1	4.9	4.7	2.0	1.9	1.9	1.9
Cash and cash equivalents	17.0	18.6	22.7	13.8	16.5	21.5	31.3
Total assets	143.7	154.5	131.6	122.7	137.3	143.3	168.8
Shareholders' Equity and Liabilities							
Share capital							
Share capital	20.7	20.7	20.7	20.7	20.7	20.7	20.7
Reserves & Surplus	36.5	35.3	28.0	24.1	23.5	19.4	17.5
Retained earnings	5.4	10.7	1.7	1.5	10.2	17.6	30.7
Total equity	62.5	66.6	50.4	46.2	54.4	57.7	68.9
Non-current liabilities							
Long term borrowings	29.8	35.1	37.5	29.5	28.9	33.7	43.6
Deferred tax liabilities	2.3	1.2	0.4	0.3	0.4	0.4	0.4
Provisions	5.6	6.1	4.5	5.4	4.5	4.5	4.5
Total Non-Current Liab.	37.6	42.4	42.4	35.2	33.7	38.6	48.5
Current liabilities							
Trade and other payables	40.3	41.9	37.7	36.4	47.5	45.2	49.5
Income tax liabilities	0.7	1.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings	0.5	0.2	0.3	0.3	0.2	0.3	0.4
Provisions	2.0	2.3	0.8	4.7	1.5	1.5	1.5
Total Current Liabilities	43.5	45.4	38.8	41.3	49.2	47.0	51.5
Total liabilities	81.1	87.8	81.2	76.5	82.9	85.6	99.9
Total equity and liab.	143.7	154.5	131.6	122.7	137.3	143.3	168.8

Source: Research Dynamics, Company data

Cash Flow Statement

<i>In CHF mn</i>	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net profit for the period	6.1	12.6	7.7	0.2	8.7	7.4	13.1
Non-cash adjustments:	4.2	4.9	5.1	9.6	0.3	5.7	6.6
Change in current assets and liabilities:							
(Increase)/decrease in inventories	1.3	(1.2)	(2.5)	1.0	(5.6)	1.9	(3.4)
(Increase)/decrease in receivables	(0.0)	(0.8)	2.2	(2.2)	(4.6)	2.3	(2.2)
(Decrease)/increase in current liabilities	9.0	(0.2)	(3.5)	(1.4)	10.7	(2.3)	4.3
Change in operating working capital	10.3	(2.2)	(3.9)	(2.6)	0.5	1.8	(1.2)
Cash flows from operating activities	20.7	15.3	9.0	7.2	9.6	15.0	18.5
Purchase of PPE	(4.8)	(6.4)	(4.7)	(4.6)	(5.3)	(5.8)	(6.7)
Disposal of PPE	0.3	0.3	0.3	-	1.0	-	-
Purchase of intangible assets	(0.4)	(0.4)	(0.8)	(0.2)	(0.3)	-	(0.2)
(Acquisition)/divestment	(0.4)	(8.6)	-	-	-	(5.0)	(10.0)
Change in other assets	(0.9)	(0.7)	(0.6)	1.8	0.7	-	-
Cash flow generated (used) in investment activities	(6.2)	(15.8)	(5.7)	(3.1)	(3.8)	(10.8)	(16.9)
Change in treasury shares	(1.1)	(3.1)	(0.8)	(0.7)	(1.0)	-	-
Proceeds from Share issues	1.2	2.7	0.5	(0.1)	(0.9)	-	-
Repayment of excess share premium	(2.2)	(2.9)	(4.1)	(4.1)	-	(4.1)	(1.9)
Net proceeds/(repayment) from debt	(5.5)	5.2	2.9	(7.9)	(1.0)	5.0	10.0
Amortization related to finance lease	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	-	-
Cash flow generated (used) in financing	(7.7)	1.8	(1.7)	(12.9)	(3.1)	0.9	8.1
Exchange (losses)/gains	(0.2)	0.3	(0.4)	(0.1)	0.0	-	-
Net change in cash	6.6	1.6	1.1	(8.9)	2.7	5.1	9.7
Opening cash balance	10.3	16.9	21.6	22.7	13.8	16.5	21.5
Closing cash balance	16.9	18.5	22.7	13.8	16.5	21.5	31.3

Source: Research Dynamics, Company data

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