Schaffer Corporation Limited

SCHAFFER INCREASES EBIT BY 61%, INCREASES DIVIDENDS BY 9%; GOODWILL IMPAIRMENT OF $3.7M DECREASES STATUTORY PROFIT BY 7%

Schaffer Corporation Limited (ASX: SFC) has reported a net profit after tax (NPAT) of $4.9 million for the first half of the 2014 financial year (pcp: $5.3 million).

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to 31-Dec-13	31-Dec-12	% Change
Revenue ($m)	86.2	72.3	19%
EBITDA[1] ($m)	18.0	12.0	51%
EBIT[1] ($m)	15.3	9.5	61%
NPAT* ($m) after $3.7M goodwill write-off	4.9	5.3	(7%)
Earnings per share	$0.35	$0.38	(7%)
Ordinary dividends per share	$0.12	$0.11	9%
Underlying NPAT[1]	7.9	3.3	141%
Underlying EPS[1]	$0.57	$0.23	142%

* Net Profit after tax and minority interests.
[1] Refer to most recent Annual Report for definitions of Non-IFRS measures.

SFC increased underlying profit by 141%, driven by volume increases from new model programs at Automotive Leather. The result was also improved due to foreign exchange rate movements, which increased Australian-dollar-denominated export revenue and resulted in abnormal stock profits.

The 7% decrease in NPAT resulted from a $3.7 million goodwill impairment at Building Materials. As shareholders will be aware, SFC maintains a prudent approach to risk and financial management. The Group has assessed a range of reasonably possible valuation assumptions across its businesses. From that process, SFC has determined that it is appropriate to make a non-cash, non-tax deductible impairment of Building Products' (paving and walling products) goodwill carrying values.

NET TANGIBLE ASSETS

At 31 December 2013, the Group's net tangible assets (NTA) at market value were $7.09 per share, an increase of $0.51 over the half. This compares with a closing price at the end of January 2014 of SFC's shares of $5.55.

The Group's NTA at market value includes an estimated $46.7 million of unrealised property value before tax ($32.7 million after tax). SFC carries those property assets in its accounts at the more conservative depreciated book values. The unrealised values are supported by ongoing and recent independent, accredited valuations.

AUTOMOTIVE LEATHER

The Automotive Leather division's revenue increased by 51% to $53.0 million and EBIT increased significantly to $11.1 million (pcp: $1.7 million).

Volumes processed at the China cutting and finishing facility increased 38% from a low base. The Slovakian facility increased volumes by 31%. Demand for new vehicle model programs has continued into this financial year.

During the latter part of the last financial year, the Australian dollar depreciated substantially against the Euro and the US dollar. The prevailing currency rates have positively impacted SFC's export revenues. The lower AUD:USD rate does also adversely impact input costs, as most semi-processed raw materials and some chemicals are purchased in US dollars.

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The exchange rate change has also enhanced EBIT on the basis of the accounting treatment of SFC's hide inventory. Hides on hand at the beginning of the 2013 financial year were purchased at an average of AUD:USD 1.03, which reflects a lower real (that is, Australian-dollar denominated) cost than current hide purchases. As a result, Automotive Leather's Cost of Goods Sold for the first half was comparatively low, increasing the division's profit. As those 'lower' cost hides have now all been sold and replaced by 'higher' cost hides, margins will decrease for the second half of the year.

SFC expects second half volumes to be similar to the first half and assumes that exchange rates will remain relatively favourable. Accordingly, revenue and EBIT are forecast to be significantly higher than the previous corresponding period.

BUILDING MATERIALS

Building Materials' revenue decreased by 12% to $29.7 million and EBIT decreased to $2.5 million (pcp: $4.7 million).

Delta Corporation remains a market-leading manufacturer of pre-cast and pre-stressed concrete products. Delta recorded a reduced result due to the decline in activity in the resource sector. Both revenue and margins fell as competition intensified and Delta undertook lower margin work to fill production capacity.

The Building Products business unit supplies paving and walling products to residential and commercial building sectors. The business unit achieved a lower result compared to the prior corresponding period, during which it supplied a larger value of commercial and civil projects.

The persistence of adverse trading conditions influenced SFC's most recent assessment of risk and therefore the assessed value of the business. The result is the Board's decision to record a $3.7 million goodwill impairment. The goodwill carrying value had been maintained since the most recent business acquisition during the 2008 financial year. SFC notes that the revised valuation assessment is both a non-cash item and does not affect the value of tangible assets.

Order banks across the Building Materials division remain similar to the levels at the start of the 2014 financial year. SFC remains cautious of the timing of project deliveries and the uncertainty of current industry trends. SFC anticipates revenue and EBIT for the second half to be similar to the subdued results in the prior corresponding period.

INVESTMENT PROPERTY

The Investment Property division comprises SFC's interests in syndicated property investments. Revenue increased by 5% to $3.2 million and EBIT increased by 5% to $1.4 million. This result reflects tenancies remaining at near 100% for the majority of the period.

The commercial office market is in a weakening phase and SFC anticipates vacancies will rise. Such an outcome would result in lower revenue and earnings for the second half of the financial year.

SFC's interests include a 15% interest in the highly successful Mindarie Keys Syndicate. The Syndicate has entered into a contract for the sale of the Mindarie marina assets. The contract remains conditional as at the date of this letter. If the sale settles, SFC will realise approximately $0.5 million in EBIT in the second half.

ESTABLISHMENT OF GOSH CAPITAL

SFC announced at the 2013 Annual General Meeting that it would establish a new investment business. Registered as Gosh Capital, the business has been established from the assets of the former Gosh Leather business, which ceased operations in 2006.

Gosh Capital will seek to maximise the value of the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia. The conversion of the Cockburn Coast area to a high density residential precinct has enhanced the future development potential of this site.

Gosh Capital will also reinvest profits earned to grow its available capital for investment. Those profits include the insurance proceeds received from the April 2012 loss by fire of the building at 10 Bennett Avenue.

As at the date of this letter, Gosh Capital's assets comprise:

- The land at 10 Bennett Avenue.
- A bulky goods retail centre located at 39 Dixon Road, Rockingham, Western Australia, which was purchased for $7.75 million (at an 8.75% yield) and funded 60% by debt, recourse only against the financed property.
- Smaller investments in two property unit trusts in New South Wales (totalling $1.5 million), which are yielding approximately 10% a year.
- $1.3 million cash on deposit.

OUTLOOK

Volatility and uncertainty have impacted the Group's operations for a number of years. Those conditions continue to impact (negatively and positively) on foreign currency movements, industry growth and decline, and consumer confidence. As such, forecasting remains challenging.

Nonetheless, for the second half SFC anticipates that its performance will be significantly higher than the previous corresponding period. That forecast, which presupposes that current foreign exchange rates will prevail for the second half, will be driven by:

- A significant increase in Automotive Leather's earnings due to increased volumes.
- A subdued result for Building Materials roughly in line with the prior corresponding period.
- A slight increase in Investment Property's result due to the sale of the Mindarie marina, which should partially offset increased office vacancies.

For the full year, SFC anticipates statutory NPAT will be higher than the 2013 financial year. Underlying profit, which excludes the impact of the fire damage claim for 10 Bennett Avenue and impairment of goodwill, is expected to be significantly higher than the prior year.

DIVIDENDS

On 21 March 2014, SFC will pay a fully-franked interim ordinary dividend of $0.12 per share, which is an increase of 9% over the prior interim dividend. The record date for the interim dividend is 14 March 2014. In line with SFC's prudent approach, the Board has declared a modestly increased dividend despite a significant increase in underlying earnings per share. The Board's decision reflects the potential for volatility to affect future results.

John Schaffer
Chairman
19 February 2014

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