Schaffer Corporation Limited

SCHAFFER REPORTS STEADY PROFIT OF $7.6 MILLION, ANTICIPATES HIGHER FIRST HALF IN FY2014

21 August 2013

Dear Shareholders

Schaffer Corporation Limited (ASX: SFC) has recorded a net profit after tax (NPAT) for the 2013 financial year of $7.6 million, a result that is 1% higher but achieved from revenue that was 9% lower than the previous year.

Reflecting the underlying strength of the Group and prudent capital management, SFC will pay a fully franked final ordinary dividend of $0.12 per share (up 9% from last year) making the full year dividends total $0.23 per share. The record date is 6 September 2013 and the final dividend will be paid on 20 September 2013.

FINANCIAL SUMMARY

	Financial Year to		
	30-Jun-13	**30-Jun-12**	**% Change**
Revenue ($m)	138.4	152.6	(9%)
EBITDA** ($m)	20.0	19.9	1%
EBIT** ($m)	14.8	14.9	(1%)
NPAT* ($m)	7.6	7.5	1%
Earnings per share	$0.54	$0.53	1%
Ordinary dividends per share	$0.23	$0.21	10%
Return on average capital employed**	14%	14%	

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

The result reflected the balance that our diversified businesses provide. Building Materials, particularly within the Delta pre-cast concrete business, benefited from continued strong activity primarily from the civil infrastructure projects and civil works for some larger mining projects in Western Australia. Contrastingly, Automotive Leather recorded lower sales revenue as anticipated. That division completed programs during this and the previous year and continued to be affected by the strong Australian dollar. However, with the commencement of new programs late in the financial year, Automotive Leather is poised for renewed revenue growth at the same time as an easing of the Australian dollar should assist reported profits.

Included in the result is $2.3 million NPAT from proceeds of the ongoing insurance claim for the loss by fire of the building at 10 Bennett Avenue, North Coogee, Western Australia. Excluding this, the underlying NPAT was 20% lower than in 2012 which is mainly a reflection of the anticipated lower sales revenue for Automotive Leather.

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Schaffer Corporation Limited ABN 73 008 675 689

Nonetheless, the Group continues to respond well to difficult conditions and to position itself for growth. We are continuously improving our business systems. We are also further strengthening the balance sheet with a combination of strong operating cash flows and reductions in Group net debt.

NET TANGIBLE ASSETS

On the last ASX trading day of the financial year, SFC's shares closed at $4.32. At 30 June, the Group's net tangible assets at market value (NTA) were $6.58 per share – a 52% premium to the year-end share price.

Group NTA includes an estimated $47.4 million of unrealised property value before tax ($33.2 million after tax). SFC carries those property assets in its accounts at the more conservative depreciated book values. The assessed unrealised values are supported by ongoing and recent independent, accredited valuations.

DEBT REDUCTION PROGRAM

At the onset of the Global Financial Crisis, it was evident to the Board that the immediate crisis would be only the beginning of a sustained period of uncertainty and volatility in both capital markets and the operating environments of the Group's businesses. Accordingly, SFC instituted and has since maintained a rigorous debt reduction program.

I would never say that we are fortunate to have strong net cash flows. They are the result of the quality of our businesses, our people and our focus on ongoing improvement. Since December 2008, those cash flows have enabled us to reduce net debt by $45 million. That amounts to a 56% decrease and includes a $4.0 million reduction in the period under review.

In Building Materials and the Corporate function, all debt has recourse to SFC. Those divisions are now net cash positive. At Property, $3.9 million (17%) of debt is recourse to SFC, and Property's net debt has reduced to $17.6 million from $26.2 million at 31 December 2008. No debt in Automotive Leather is recourse to SFC and the division has reduced net debt to $18.4 million from $34.0 million in 2008.

DIVISIONAL REVIEW

Building Materials

The Building Materials division increased EBIT by 10% to $5.5 million, as revenue increased by 4% to $58.5 million.

Delta Corporation produces and supplies pre-cast and pre-stressed concrete products. Delta continued its growth trend with increasing revenue from Government building and infrastructure and civil works for large-scale resource projects. Given strong demand and Delta's leading position, it applied its expertise and capacity to highly specialised and higher margin work.

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The Building Products business unit supplies paving and walling products. For some years, the business unit has been exposed to prevailing economic and industry conditions that have resulted in continuing low residential and commercial building activity. Whilst it was another difficult year, the business unit's component businesses remain sound. However, outperformance is intrinsically linked to an upswing in the sectors that underpin the businesses. In the interim, government-funded projects, such as the Western Australian state government's 'super towns' scheme, have helped to partially offset the subdued business unit performance.

Building Products continues to judiciously expand its product offering. It has introduced a unique value-added range of masonry block products and also exclusive Australian granite. The Masonry Block strategy is progressing particularly well with the business unit supplying a wide variety of buildings and growing its penetration in the architectural market.

Automotive Leather

The Automotive Leather division's EBIT decreased to $5.0 million, as revenue decreased by 19% to $72.9 million.

The Group anticipated the decline in Automotive Leather's result, as several supply programs came to completion. The majority of the volume decline occurred in China, where cutting facility volumes were down 44%. There was also lower demand associated with the change over of vehicle models in Europe. Awarded programs at the European facility only commenced supply late in the financial year but are ramping up in the current year.

Throughout the financial year, exchange rates were volatile. The average prevailing rates for the year were unfavourable compared to 2012, which negatively impacted reported revenue and profitability.

In May 2013, a devaluation of the Australian dollar commenced against both the US dollar and Euro. That trend has continued into the 2014 financial year. Automotive Leather's net export exposure to the Euro is currently greater than its net import exposure for the US dollar. If rates remain at current levels, the Group expects this position to positively impact revenue and profit.

As always, the direction, size and sustainability of currency movements are outside the Group's control. Accordingly, Automotive Leather continues to invest in further technological and process improvements to create cost savings and enhance its reputation as a high quality and low cost producer.

Property

The Property division's EBIT increased to $7.5 million and revenue increased by 8% to $7.1 million. Of that EBIT, $3.5 million was from ongoing operations and $4.0 million represented proceeds from the insurance claim.

The operating result reflected the portfolio being close-to-100% tenanted for the majority of the 2013 financial year.

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The $4.0 million of insurance proceeds form part of the ongoing Bennett Avenue property damage (fire) claim. The property was insured against such a loss and the Group has received progress payments of $5.5 million to date. SFC continues to negotiate with its insurers to achieve a final outcome of the claim.

SFC did not sell any property assets during the period.

OUTLOOK

Forecasting remains challenging. Foreign currency fluctuations are just one indicator of the volatile environments in which Schaffer Corporation operates. Last year, we reported that ongoing strength of the Australian dollar would negatively impact on financial performance. It did. However, during the last several months, the Australian dollar has devalued significantly. Should the dollar remain at or around current levels, SFC will benefit with increased reported export revenue.

For the first half of the 2014 financial year, Schaffer Corporation anticipates that its performance will be higher than the first half of last year.

Automotive Leather's EBIT will be materially higher due to the devaluation of the Australian dollar and higher volumes associated with the new European programs. A further EBIT increase will accrue in the first half, as the majority of export sales will be made from hide stock purchased at higher US dollar rates. That is, those higher rates reduced the Australian dollar cost of import purchases. With the dollar now falling, Automotive Leather will benefit from export sales that achieve higher prices in Australian dollar terms.

Contrastingly, and again demonstrating the balance our businesses achieve, Building Materials' performance should be lower, given the slowdown of both resources and infrastructure projects, and subdued consumer spending. Building Materials has strong order books but SFC remains cautious of the slowdown's impact on revenue and margins. The division will focus on the commercial and civil infrastructure sectors to mitigate negative impacts. The Building Products division is particularly leveraged to an increase in consumer spending and new housing. SFC anticipates some improvement in this segment.

Property should record slightly lower revenue due to weakening office rental markets.

In conclusion, I would like to once again thank our long-serving management and 1,000 strong workforce for their dedication and efforts, and without whom the achievement of our results would not be possible. I also like to convey my appreciation to you, our shareholders, for your loyalty as we endeavour to maximise shareholder value through the efficient operation and growth of our businesses.

John Schaffer
Chairman

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