Schaffer Corporation Limited
ABN 73 008 675 689

SCHAFFER CORPORATION REPORTS INCREASED NET PROFIT OF $4.8M

Schaffer Corporation Limited (ASX: SFC) today announced that it had achieved net profit after tax (NPAT) for the 2011 financial year of $4.8 million.

That result is seven percent higher than that achieved in the prior year and represents an improvement over the upgraded guidance provided by SFC in June 2011. At that time, SFC expected NPAT would be marginally lower than in the prior period.

As indicated in the June guidance, SFC will pay a fully franked final ordinary dividend of $0.10 per share, bringing dividends for the 2011 financial year to $0.20 per share (fully franked).

SFC's NPAT result was boosted by the sale of properties and an improved performance from the Automotive Leather division. However, Building Materials division recorded a lower result and SFC also incurred one-off costs to close and divest Automotive Leather's loss-making North American leather operation.

FINANCIAL PERFORMANCE SUMMARY

	30-Jun-11	30-Jun-10	% Change
Revenue ($m's)	137.8	136.8	1%
EBITDA ($m's)	17.1	15.1	13%
EBIT ($m's)	12.2	10.2	20%
NPAT ($m's)	4.8	4.5	7%
Earnings per Share (EPS)	$ 0.34	$ 0.32	7%
Ordinary Dividends per share	$ 0.20	$ 0.40	
Return on avg. capital employed	11%	8%	

BUILDING MATERIALS

The Building Materials division achieved a 10% increase in revenue to $51.8 million but reported a reduction in earnings before interest and tax (EBIT) to $3.9 million.

Delta Corporation, which produces and supplies pre-cast and pre-stressed concrete products, increased revenue with a higher level of contract awards. Those awards centred on Government projects, buildings and infrastructure and large scale resource projects. However, with the bulk of orders not commencing until late in the financial year, margin compression and low levels of production resulted in slightly decreased EBIT.

Within an economic setting of lower building activity, Building Products operated within an increasingly competitive market both from domestic and imported products. Also during the period, Building Products completed and commissioned its new Masonry Block plant, whose first impacts were only felt during the second half. Consequently, Building Products achieved marginally lower revenue and also lower margins.

AUTOMOTIVE LEATHER

As noted above, Automotive Leather discontinued its North American operations during the financial year. Accordingly, revenue (including discontinued operations) decreased to $79.2 million. The division increased EBIT strongly to $3.2 million (including discontinued operations). Nonetheless, the EBIT result remains at an unsatisfactory level.

The revenue/EBIT trade off reflected in the division's results flowed directly from the withdrawal from the low margin whole-hide sales market in Asia and the closure and sale of the loss-making North American leather cutting operations. SFC made those decisions following deterioration in trading terms to an unacceptable level with limited upside potential. Whilst the decision to focus on higher margin operations in Asia and Europe has already improved EBIT performance, further improvement is expected going forward.

PROPERTY

At Property, revenue decreased by 13% to $6.8 million, while EBIT increased by 51% to $7.2 million, as a result of property sales during the financial year.

The decline in revenue is attributable to reduced net rental following previous property sales and a small increase in vacancy rates. The largest contribution to EBIT was $4.1 million from the sale of SFC's interest in the 89 St Georges Terrace, Perth property syndicate.

NET DEBT

Over the financial year, SFC has reduced by $10.9 million its net debt specific to the company and its 100% owned entities, which comprise the Building Materials and Corporate divisions. At 30 June 2011, that net debt stood at $3.0 million.

Net debt at Automotive Leather (83% owned by SFC) increased by $4.2 million to $21.6 million. Automotive Leather's debt includes a $30.7 million Australian Government Loan facility maturing in February 2012. Discussions with the Government are well advanced regarding refinancing this facility, which is non recourse to SFC.

At Property, syndicated joint venture net debt reduced by $2.9 million to $22.7 million. This debt is secured against the investment properties (i.e. non recourse to SFC). The value of SFC's interests in those properties is estimated by SFC at $42.9 million.

OUTLOOK

As has been the case for several years, SFC's operating divisions are operating in challenging environments. The continued volatility in global financial and currency markets and severely restricted credit for commercial property developments across Australia make forecasting future performance difficult.

Nonetheless, the Board remains optimistic that SFC's financial performance for the first half of the 2012 financial year will exceed the results achieved during the previous corresponding period.

SFC anticipates revenue and EBIT for Building Materials during the first half will be marginally higher than the previous corresponding period. Confirmed order books for Building Products and Delta are increasing and include a new range of masonry products manufactured at a state-of-the-art production facility within the Jandakot factory.

For Delta, Government infrastructure works and large resource project infrastructure jobs are being tendered and let, which should have a positive impact. Such contracts are highly valued by SFC but, by their nature, involve a long sales cycle and lead time.

With its strong manufacturing and distribution base, the Building Products group is leveraged to an increase in consumer spending and new housing, both of which have been severely constrained for much of calendar 2011.

For Automotive Leather, the withdrawal from the whole hide market in Asia and closure and sale of the North American leather cutting operations has already achieved higher overall margins within the division. The consequent reduction in revenue and volumes should be more than offset with new approved program demand from the targeted markets of Europe and China. Accordingly, SFC anticipates revenue and EBIT to be higher than the previous corresponding period.

The Property division is expected to achieve slightly lower revenue and EBIT in the first half compared with the corresponding prior period. As with the second half of the 2011 financial year, the revenue decrease relates to the reduction in net rental due to the previous sales of property and slight increase in vacancies.

As noted above, SFC will pay a final dividend of $0.10 per share (fully franked) on 23 September 2010 to shareholders of record on 9 September 2010. That payment will bring dividends paid for the full year to $0.20 per share (fully franked).

John Schaffer
Chairman

24th August 2011