Schaffer Corporation Limited

SCHAFFER INTERIM PROFIT INCREASES 19% TO $5.3 MILLION

20 February 2013

Schaffer Corporation Limited (ASX: SFC) has recorded a net profit after tax (NPAT) of $5.3 million for the first half of the 2013 financial year (pcp: $4.4 million).

The half yearly NPAT is 19% higher than the result for the first half of the 2012 financial year and resulted from:

- The Building Materials division, particularly the Delta pre-cast concrete business, capitalising on ongoing elevated demand from resource and civil infrastructure projects in Western Australia.
- Contrastingly, lower sales volumes for Automotive Leather due to prior year program completions and the impact on demand for Japanese manufactured vehicles from political issues between China and Japan.
- A $2.0 million NPAT contribution from proceeds of the ongoing insurance claim for the loss by fire of the building at 10 Bennett Avenue, North Coogee, Western Australia.

On 22 March 2013, SFC will pay a fully franked interim ordinary dividend of $0.11 per share, which is an increase of 10% over the prior interim dividend. The record date for the interim dividend is 15 March 2013.

FINANCIAL PERFORMANCE SUMMARY

	Financial Half-Year to		
	31-Dec-12	31-Dec-11	% Change
Revenue ($M)	72.3	81.0	(11%)
EBITDA ($M)	12.0	11.1	8%
EBIT ($M)	9.5	8.5	12%
NPAT* ($M)	5.3	4.4	19%
Earnings per share	$0.38	$0.32	19%
Ordinary dividends per share	$0.11	$0.10	10%

*Net Profit after tax and minority interests

NET TANGIBLE ASSETS

As at 31 December 2012, the Group's net tangible assets (NTA) at market value were $6.46 per share. This compares with a closing price of SFC's shares at the end of January 2013 of $4.07.

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Schaffer Corporation Limited **ABN** 73 008 675 689

The Group's NTA at market value includes an estimated $47 million of unrealised property value before tax ($32.9 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.

DEBT REDUCTION PROGRAM

Following the onset of the Global Financial Crisis, SFC's Board recognised that the Group's businesses were likely to be operating in an extended period of volatility and uncertainty. Accordingly, in December 2008, SFC instituted a debt reduction program aimed at further strengthening the Group's financial position.

In the ensuing four years, SFC has utilised its strong net cash flows to reduce Group net debt by $46.8 million, a 58% decrease in net debt, including $6.0 million in the period under review.

The Building Materials division and Corporate function, for which debt is 100% recourse to SFC, are now in a net cash positive position of $7.8 million. Within the syndicated investment property portfolio (17% recourse to SFC) recourse debt is just $3.9 million and net debt has reduced to $22.6 million from $26.2 million at 31 December 2008. The Automotive Leather division's net debt (100% non recourse) has reduced to $18.8 million from $34.0 million in 2008.

BUILDING MATERIALS

The Building Materials division's revenue increased by 17% to $33.7 million and earnings before interest and tax (EBIT) increased 66% to $4.7 million.

Delta Corporation, a market-leading producer and supplier of pre-cast and pre-stressed concrete products, continued its growth trend. Delta increased revenue behind Government building and infrastructure projects and large-scale resource projects. In addition to the increased volume of work, Delta has applied its capacity to highly specialised work, which has improved profitability.

The Building Products business unit supplies paving and walling products to residential and commercial building sectors. Despite low activity continuing in those sectors in the first half, Building Products has contributed some improvement in revenue and profit. This result reflects the division's constant focus on developing and targeting its product range towards customer and industry requirements.

Order banks across the Building Materials division remain similar to the strong levels at the start of the 2013 financial year.

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AUTOMOTIVE LEATHER

The Automotive Leather division's revenue decreased by 28% to $35.1 million and EBIT reduced significantly to $1.7 million.

The reductions resulted from a 24% decrease in volumes principally associated with the anticipated completion of a large supply program during the last financial year.

Reported revenue was also negatively impacted by the strengthening of the Australian dollar against the Euro during the first half.

Demand was also further impacted by the political dispute between Japan and China in respect of the East China Sea islands. The dispute has reduced Chinese demand for Japanese manufactured vehicles, which affected the supply of Automotive Leather's cut leather from its China cutting plant.

PROPERTY

The Property division's revenue increased by 5% to $3.5 million and EBIT increased to $5.0 million (pcp: $1.9 million).

The significant increase in EBIT included $3.4 million relating to the ongoing fire damage claim for the loss of the building at 10 Bennett Avenue, North Coogee, Western Australia.

Excluding that recovery and the sale of property in the prior corresponding period, net rental margin increased by 11% to $1.6 million.

The investment property portfolio has remained unchanged over the past 12 months and has achieved increasing rents and near 100% occupancy, which are reflected in the improved underlying performance.

The Group is progressing negotiation for a final settlement of the fire damage claim. To 31 December 2012, SFC has received $5.0 million in insurance proceeds for the building loss, plus 12 months' indemnity for loss of rent.

OUTLOOK

The volatility and uncertainty mentioned earlier continue to impact the Group's business environments both positively and negatively, as they have done for the last four years.

Particular issues that are 'front of mind' for SFC and its Board include:

- Foreign currency movements, for example, a devaluation of the Australian dollar against the US dollar, which would increase imported hide costs for Automotive Leather. Also, a strengthening of the Australian dollar against the euro which would reduce our export revenue.
- The duration of the elevated level of resource investment in Western Australia, which is positively impacting Building Materials.

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- Ongoing severely constrained property development finance availability and low residential construction activity, which affect the Building Products business unit.

These and other issues make forecasting a substantial challenge. Nonetheless, for the second half of the current year, SFC anticipates that its performance will be higher than the previous corresponding period.

That increased result will be driven by:

- Improved performance from Building Materials, where order books are as strong as at the start of the 2013 financial year, positioning the division well for the second half.
- Similar EBIT contribution from Automotive Leather as approved programs commence toward the end of the financial year and the positive effect of the current strengthening of the Euro against the Australian dollar on export revenue.
- Marginally improved performance at Property with low vacancies and improving average rent.

SFC does not anticipate making any property sales in the second half.

For the full year, SFC anticipates statutory NPAT will be higher than the 2012 financial year. Underlying profit, excluding the impact of the fire damage claim for 10 Bennett Avenue and profit from a prior year property sale, is expected to be similar to the prior year.

DIVIDENDS

The interim dividend has been increased by 10% to $0.11 per share fully franked (pcp: $0.10). Whilst our focus has been on debt reduction and the build up of cash reserves, your board is conscious of the conservative dividend payout ratio.

John Schaffer
Chairman

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