

GMG Equity Research

SCHINDLER

Jean-Louis Richard, CFA, FRM
Senior Equity Analyst

18/10/2019

Key data

Market capitalization (millions CHF)	23.537
Entreprise value (million CHF)	21.720
Share price (CH)	223,8

Stock absolute and relative performance (CHF)

In %	Absolute	Relative *
1 month	-0,5%	0,0%
3 months	0,8%	0,3%
6 months	1,6%	-3,7%
YTD	17,2%	-5,8%
1 year	7,5%	-6,2%
2018	-11,5%	-2,9%
2017	28,1%	8,2%

*relative to SPI

Description

Schindler is one of the world leaders in the lifts and escalators sector along with Otis (number one) from USA and Kone from Finland. Thyssenkrupp from Germany and Mitsubishi from Japan complete the group of the firms that lead the consolidation of the sector.

New installations of equipments account for about half the sales. Urbanization in emerging countries leads to higher buildings and to more lifts in them. As a result the market is growing at rates above world GDP and it has a large exposure to emerging countries, especially China. The increasing sophistication of the products such as high rise lifts, internet of things and economies of scale favor large players such as Schindler.

The other half of sales stems from maintenance and refurbishment. This side of the business commands higher margins, is resilient to cyclical downturns and its geographical exposure is more balanced between emerging and developed regions.

A challenge at the moment is to entice buyers of new equipments to sign maintenance contracts, especially in countries where maintenance tends to be less of a focus. Competition in this activity stems from many local smaller firms which may offer lower prices. A decisive source of competitive advantage is the density of equipments under contract in one area as technicians spend less time going from one site to an other and are more productive as a result.

Firm's performance

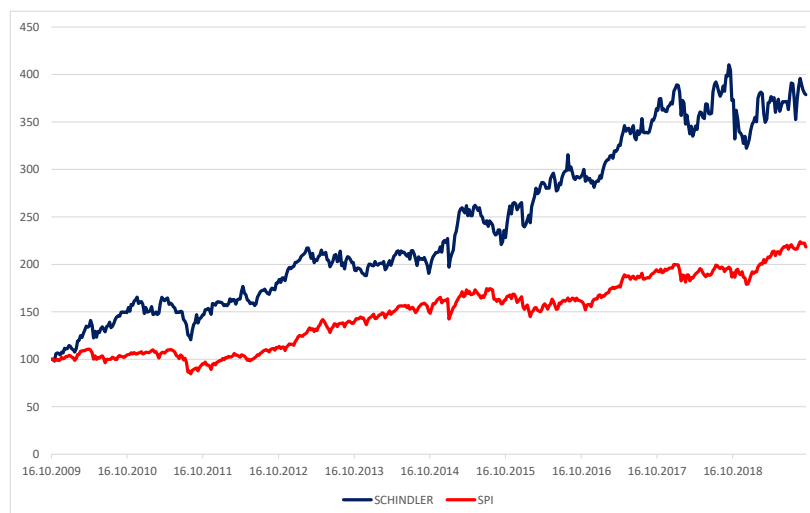
The firm has delivered a satisfying sales growth of 4.3% in average in francs over the last 5 years.

Its operational margin of 11,6% in average over this period is somewhat disappointing as it is inferior to what peers like Kone and Otis achieved.

Schindlers's aim to improve its margin has proved elusive recently.

Despite this negative, the firm has delivered good cash flows and has created value for its shareholders.

Share price (10 years)





GMG Equity Research

SCHINDLER

18/10/2019

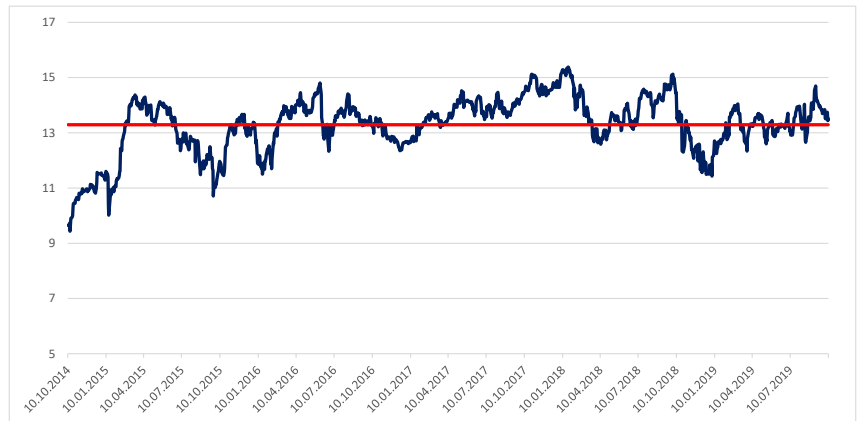
Valuation ratios

	12/16	12/17	12/18	12/19e	12/20e
EV/EBITDA	13,5	16,2	13,0	14,4	13,1
PER	25,3	28,7	23,7	26,3	23,8
Free Cash Flow Yield	3,7%	2,3%	3,5%	2,7%	4,1%
Dividend Yield	1,7%	1,8%	2,1%	2,0%	2,2%
P/BV	6,8	7,3	5,5	6,3	6,3

Bloomberg ESG ranking

Global ESG	43,4
Environment	42,6
Social	28,1
Governance	60,7

EV / EBITDA



Environment, Social & Governance comments

Environment

- The main environmental impacts of the company are the energy consumption of its products and of its service fleet of around 23 000 vehicles. This fleet accounts for 70% of the group direct energy consumption.
- In 2017, 11% of the fleet was powered with alternative energies against 6% the previous year.

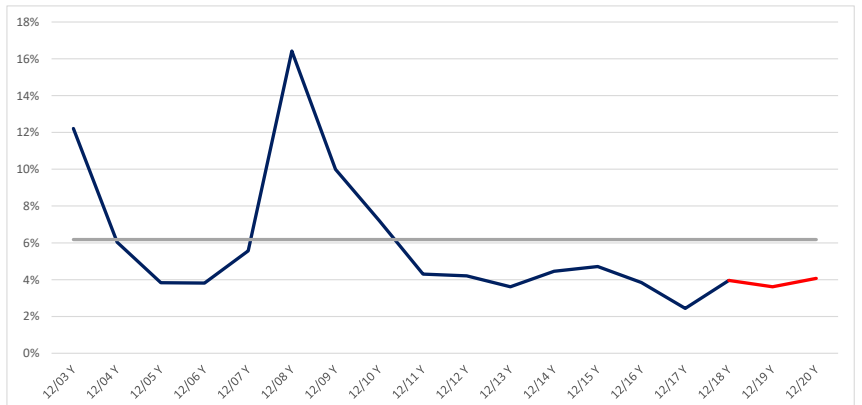
Social

- In 2007, Schindler was fine 700 million by the EU on charges of collusion to rig competition.
- In 2006, Schindler has been accused of professional negligence in Japan after a malfunctioning lift caused the death of one user. The group denied the charges. Schindler eventually withdrew from Japan.

Governance

- Schindler is controlled by families which have a long term view on the business. The families tied in a shareholders agreement control 71% of the votes while holding 44% of the capital thanks to a capital structure with 2 classes of shares.
- No other shareholder would be allowed to command more than 3% of the votes.
- After the Sika case, the families have declared that, if they were to sell their stocks, the offer would be extended to the minorities shareholders at the same conditions.

Free Cash Flow Yield

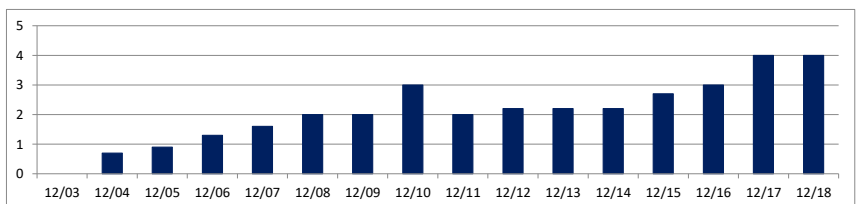


ESG affiliations and codes of conduct

UN Global Compact	✗
UN PRI (responsible investment)*	✗
Anti bribery policy	✓
Employee CSR training	✗
Fair remuneration policy	✗

* Applicable to financial institutions

Dividend per share (CHF)





GMG Equity Research

SCHINDLER

18/10/2019

Performance ratios

	12/16	12/17	12/18	12/19e	12/20e
Operating Margin	11,7%	11,7%	11,7%	11,5%	11,9%
ROIC	25,3%	25,1%	23,6%		
ROE	29,3%	27,5%	26,7%		
WC / Sales	11,7%	10,8%	16,1%		
Net Debt / EBITDA	-163,8%	-134,9%	-136,0%		
Net Debt / Equity	-73,3%	-56,1%	-52,4%		
Capex / D&A	134,0%	148,4%	140,8%		

Financial statements (million CHF)

	12/16	12/17	12/18	12/19e	12/20e
Sales	9.683	10.179	10.879	11.270	11.715
<i>variation</i>		5,1%	6,9%	3,6%	4,0%
D&A costs	141	153	174		
EBITDA	1.274	1.360	1.443	1.509	1.621
<i>variation</i>		6,8%	6,1%	4,6%	7,5%
Net earnings	762	840	883	891	977
Total current assets	5.420	5.480	6.500		
Total fixed assets	2.883	3.146	3.476		
Shareholders equity	2.847	3.268	3.743		
Working capital	1.130	1.101	1.756		
Net debt	-2.087	-1.834	-1.962		
Operating cash flow	929	810	1.005	1.152	1.252
Capex	-189	-227	-245	-288	-279
Free cash flow	740	583	760	864	973

Chairman:
Tenure (years):

Silvio Napoli
2,9

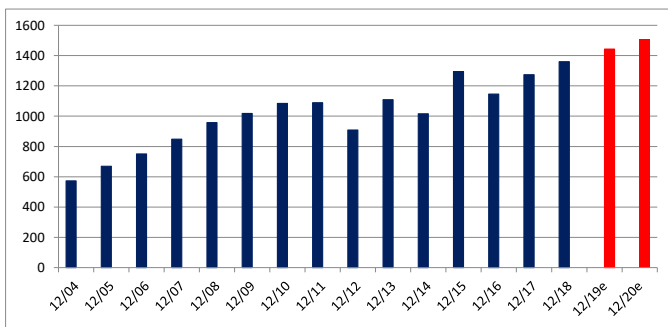
CEO:
Tenure (years):

Thomas Oetterli
3,6

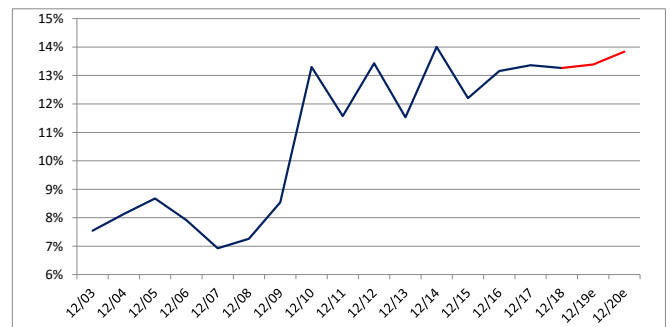
CFO:
Tenure (years):

Urs Scheidegger
0,7

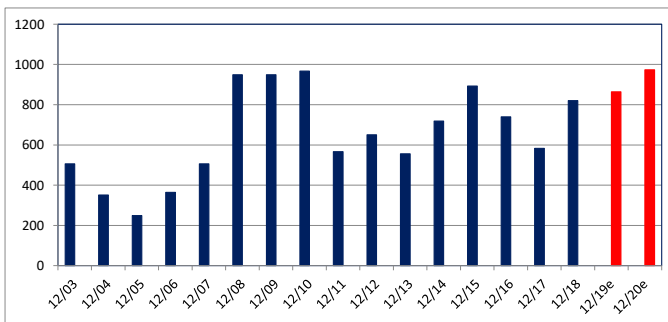
EBITDA



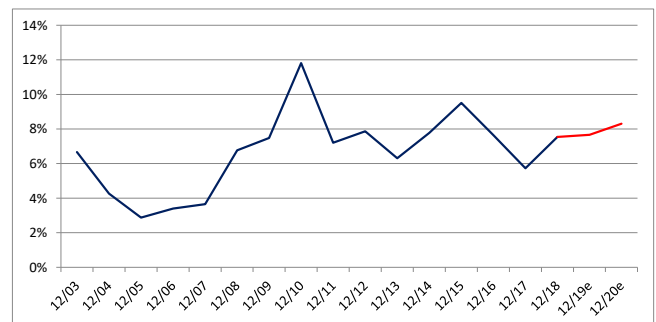
EBITDA margin



Free cash flow



Free cash flow & Free cash flow / sales





GMG Equity Research

SCHINDLER

18/10/2019

SWOT

Strengths

- The lift & escalator industry is relatively concentrated amongst a handful of leading actors, who have maintained an attractive environment in term of profitability. Schindler is one of them

Weaknesses

- Schindler seems to be struggling to improve its margin, which remains substantially lower than those of some of its closest competitors

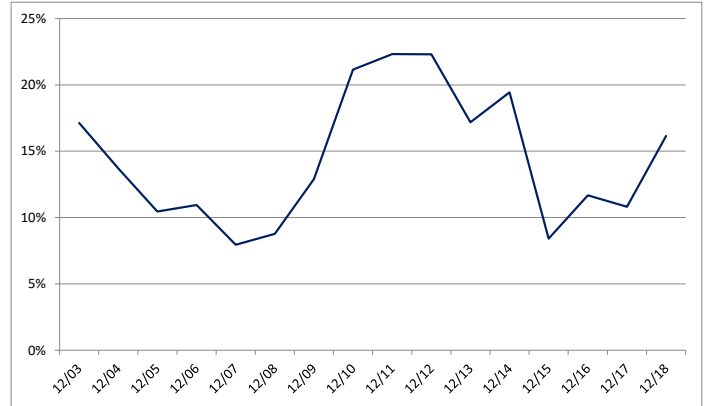
Opportunities

- The ongoing concentration of the world population in large cities generates the need for higher buildings in which a larger number of more sophisticated lifts are required

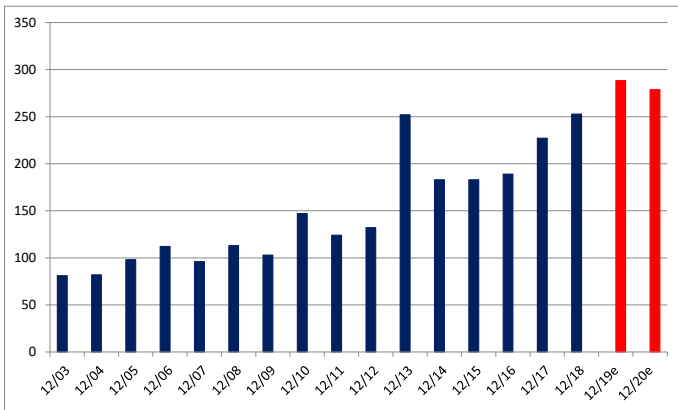
Threats

- Sensitivity to China, where almost 2/3 of the world sales of new installations are generated. China is also a crucial market for the development of the service and maintenance business

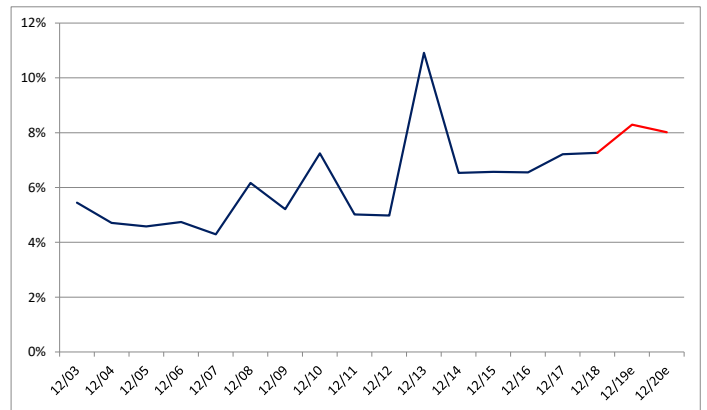
Working capital / sales



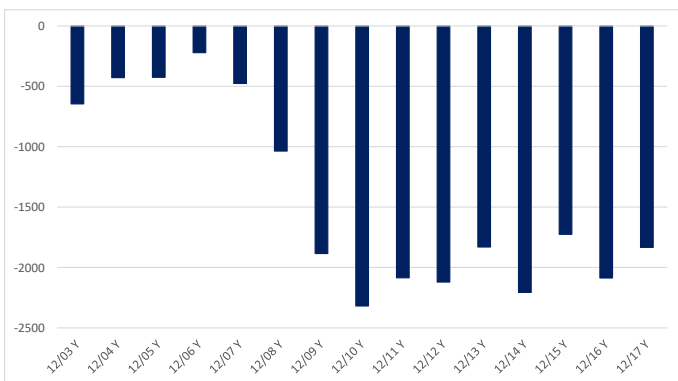
CAPEX



CAPEX / non current assets



NET DEBT



NET DEBT / EBITDA

