

Swiss convictions

Recommended since 10.04.2019

24.05.2022



| | | |
|---|---|------------------------------|
| Country CH | Market capitalization (bn) CHF 4.4 | Perf. since reco. (%) |
| Sector Industrial Goods & Services | Free float 46.1% | SFS Group AG 22.9 |
| Factset SFSN-CH | Closing price CHF 112.00 | Market 16.9 |
| ISIN CH0239229302 | ESG Risk score* #N/A #N/A | |

Profile

SFS Group supplies mechanical fixing systems and precision-moulded parts. It operates in the following segments: Engineered Components (54% of sales), Fastening Systems (28%) and Distribution & Logistics (18%). Its end markets are diversified: automotive products and components for use in electronics, construction and medical devices. The company was founded in 1928 and is headquartered in Heerbrugg, Switzerland.

Strengths/opportunities

- Technology leader (innovation) in critical, customer-specific products.
- Established long-term customer relationships.
- Strong balance sheet and high FCF generation capacity.

Weaknesses/threats

- Some end markets are highly cyclical (automotive, construction, electronics).
- Large CHF cost base means the group is particularly exposed to foreign exchange risk.

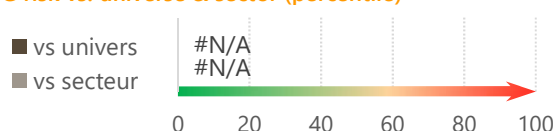
Investment case

- Following heavy investment in production capacity in Switzerland and a new production site in China (Nantong), SFS's capex should normalise, benefiting FCF.
- The group operates in diversified markets and the medical segment is fairly resilient at the moment. Furthermore, many new projects (automotive and iPhone) have been postponed during the Covid and are starting to raise EBIT margins gradually.
- A growing proportion of the group's revenue is derived from the high-margin tech and MedTech sectors. This should support an "expanding multiples" story.
- In addition, the group's particularly strong balance sheet enables it to invest during hard times to win market share.
- The automotive sector continued to be impacted by the semiconductor crisis in H2'21, which appears to be continuing in H1'22 before an expected catch-up in H2.
- For 2022, the target is in line with longer term aspirations: organic growth of 3-6% and EBIT margin of 13-16%. Note that the recent acquisition of Hoffmann is not reflected in this target and should help to achieve the top end of the range.

Valuation

SFS is currently trading in-line with its five-year average on the basis of 2023^e results. This is reasonable for an operational improvement story, which we believe deserves an expansion of multiples.

ESG risk vs. universe & sector (percentile)*



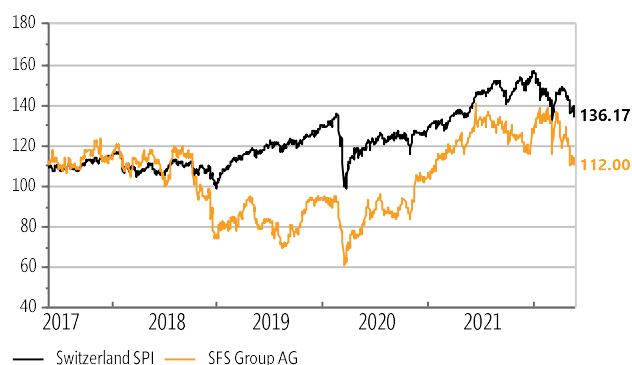
| CHF | 12/2021 | 2022e | 2023e |
|---------------------|---------|-------|-------|
| Sales revenue (mio) | 1'897 | 2'256 | 2'576 |
| Sales growth | 11.1% | 18.9% | 14.2% |
| EBIT adjusted (mio) | 285 | 315 | 348 |
| % of sales | 15.0% | 14.0% | 13.5% |
| Net income (mio) | 244 | 250 | 273 |
| Net income growth | 32.6% | 2.6% | 9.3% |
| FCF/Sales | 11.6% | 8.5% | 8.8% |
| Net debt/Ebitda | -0.7x | 0.0x | -0.3x |
| Dividend yield | 2.0% | 2.4% | 2.5% |
| PE | 19.4x | 16.9x | 15.6x |
| P/BV | 3.3x | 2.6x | 2.3x |

Factset estimates

ESG - risks and key points

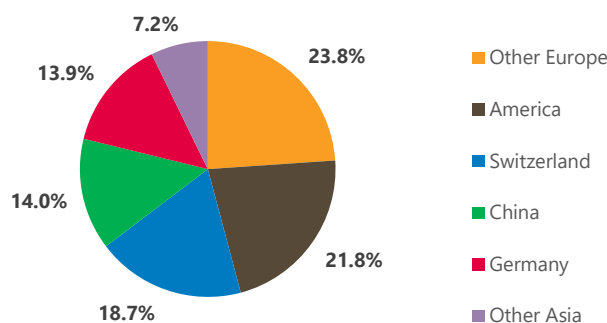
- SFS carries a moderate level of risk in relation to product governance. Management of product risk by the group's management is around average for the sector.
- The group relies on a skilled workforce that has to be looked after. However, SFS falls short of best practice in this area.
- Management of ethical risk by the group's management is average, consisting of antitrust and anti-corruption measures.

5-year performance vs SPI



Source: FactSet

Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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