Corporate News

SMT Scharf AG: difficult conditions worldwide impact H1 2014

- Revenue down -33.0 % to EUR 21.4 million (H1/2013: EUR 31.9 million)
- EBIT at EUR 0.9 million (H1/2013: EUR 6.1 million).
- "KVI" program with payback of under one year
- FY 2014 forecast adjustment: Consolidated net result forecast downgraded to EUR -2.0 million (to date: breakeven); EBIT forecast reduced to EUR -1 million (to date: EUR +1 million); revenue forecast unchanged

Hamm, August 14, 2014 – A further decline in prices for coal and other raw materials during the second quarter of the current 2014 fiscal year fed through to unchanged weak global demand for mining equipment, and consequently a marked first half-year downturn in the revenue of SMT Scharf AG (German Security Code (WKN) 575198, ISIN DE0005751986), technology and world market leader for captivated railway systems for underground mines.

Weaker than expected global economic growth also particularly impacted the SMT Scharf Group's core foreign sales markets. A marked drop in revenues in the important sales markets of China (-68.9 %) and Poland (-19.6 %) comprise the main drivers behind the -33.0 % fall in revenue to EUR 21.4 million (H1/2013: EUR 31.9 million). To this was added the negative effects from the South African miners' strike that has only just ended, and the complete omission of Ukraine business due to the political tensions there. Revenue generated in Russia proved better than expected (-11.0 %), with Russia rising to become the company's most important sales market on a proportional basis with a 32.6 % revenue share during the first half of the current fiscal year. Overall lower business volumes pushed operating output down to EUR 21.6 million (H1/2013: EUR 36.0 million).

Operating profit (EBIT) fell to EUR 0.9 million (H1/2013: EUR 6.1 million). Although the cost of materials was reduced faster than the decline in sales, being cut by 44.0 % to EUR 9.8 million (H1/2013: EUR 17.5 million) – equivalent to a 45.4 % cost of materials ratio (H1/2013: 48.5 %) – a slower reduction in personnel expenses (-8.9 %) to EUR 6.3 million (H1/2013: EUR 7.0 million) – equivalent to a 29.3 % personnel expense ratio (H1/2013: 19.3 %) – catered for markedly lower EBIT year-on-year. The EBIT margin – measured by operating output – consequently stood at 4.1 % (H1/2013: 16.9 %). The Group generated consolidated net income of EUR 1.2 million (H1/2013: EUR 3.0 million), equivalent to EUR 0.29 of earnings per share (H1/2013: EUR 0.72).

Given the further depreciation in the demand situation, the figures for the order book position and order intake as of the June 30, 2014 quarterly reporting date fell short of those on the previous year's reporting date. Compared with the previous year's balance sheet date and the reporting date at the end of the first quarter 2014, the order book position was at a largely constant level of EUR 17.7 million (June 30, 2013: EUR 18.3 million). At EUR 23.1 million (June 30, 2013: EUR 35.2 million), new order intake was down markedly year-on-year, by contrast.

Christian Dreyer, CEO of SMT Scharf AG, put the business trends during the first half of the year into context: "Sharply cyclical trends in the raw materials area have always been a factor influencing our business. If this cyclicality is further impacted by political tensions, the effects will naturally be more extreme. We nevertheless achieved a positive result thanks to our streamlined corporate structure, low vertical depth of manufacturing, and consistent cost management." With regard to the long-term localisation strategy that Dreyer had formulated on assuming the CEO post in 2012, he sees it as being justified more than ever by the current market crisis: "Our opportunities as a mining equipment manufacturer lie in those countries where mining enjoys a sustainable future, in other words, in China, Russia, South Africa and America. We need to further extend our already significant lead in these countries, and deliver proof of our technical expertise on a local basis with our customers there. ‘Made in Germany’ is becoming ‘Designed in Germany’.” Dreyer notes that it is essential to consistently implement the company's in-house KVI program (KVI refers to "costs + sales + innovation"): "Along with our relentless innovation and sales efforts, we have also been pursuing a tough but unavoidable cost-reduction program since the start of the year. As part of this, the Management Board announced a reduction in the workforce in Germany on July 31, 2014, a move that requires the conclusion of a related social plan. This is a direct consequence of the discontinuation of German coal mining by 2018, which has been irrevocably decided. Although this will result in a one-off charge of EUR -2.0 million in the current 2014 year, we expect that once it has been implemented successfully it will generate annual cost savings of around EUR 3.0 million from 2015 on, so that it can be assumed that we will not slip into the red even if the crisis continues." The aforementioned expenses have not yet been included in this set of half-year figures as of June 30, as they were not approved until after this date and will be incurred during the course of the second half of the year.

Given these additional personnel measures, SMT Scharf AG has adjusted its earnings forecast for the 2014 fiscal year: Although the revenue forecast for the full year is unchanged at around EUR 45.0 million, the expected consolidated net result has been reduced to EUR -2.0 million (previously: breakeven). The forecast EBIT has been reduced from EUR +1 million to EUR -1.0 million, as such one-off costs arising from cost saving programs must be fully included in the profit from ordinary activities according to IFRS accounting. "What is important now is to take the crisis as an opportunity to position ourselves as streamlined and effective for the next upturn. Looking back on 23 years experience in the mining sector, I have no doubt that this upturn will be coming some time soon. Nevertheless, I anticipate that by then local competitors in China will have emerged, which has not yet been the case to date. Along with the major market potential for our specialty railway systems, particularly our technology leadership in combination with the long-term growth of demand for raw materials makes me optimistic. Demand for mining equipment will grow further in line with demand for raw materials. Raw materials extraction will nevertheless become significantly more complex in the future – as a result of penetrating into deeper and more difficult deposits, for instance. And our manoeuvrable monorails are nothing short of predestined to meet such demand," is how Dreyer expresses his view of the future.

The full report for the first six months of 2014 will be available during the course of today at www.smtscharf.com in the Investor Relations area.

Company profile

SMT Scharf Group develops, manufactures and services transport equipment for underground mines. The main products are captivated railways that are used all over the world, primarily in black coal mines, but also in mines for gold, platinum and other metals. These are needed to transport material and personnel with payloads of up to 45 tons on gradients of up to 35 degrees. In addition the company supplies mines with chairlifts. SMT Scharf Group has subsidiaries in six countries and agents worldwide. SMT Scharf generates more than 90 % of revenues in growing foreign markets such as China, Russia and South Africa. Business with replacement parts and repairs contributes about half of revenue. The entire market for underground transport equipment is estimated to be EUR 5 to 7 billion per year. SMT Scharf AG has been listed in the Prime Standard (Regulated Market) of the Frankfurt Stock Exchange since April 11, 2007.

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