

SFC MAINTAINS DIVIDEND; STATUTORY NPAT DOWN

23 February 2022

Dear Shareholder,

Schaffer Corporation Limited (ASX: SFC) today reported 1H22 statutory net profit after tax (NPAT*) of \$6.5 million (1H21: \$23.1 million). Statutory NPAT included a \$6.5 million non-cash, mark-to-market revaluation of SFC's investment in Harvest Technologies Limited (ASX:HTG). Excluding the HTG revaluation, NPAT was \$13.0 million (1H21: \$15.5 million), down \$2.5 million.

The Board has declared an interim dividend of \$0.45 per share (fully franked), same as the prior period.

Half-Year Ending December (\$m)	1H22	1H21	\$ change
Revenue	\$73.2	\$102.1	(\$28.9)
NPAT* from:			
Automotive Leather	\$7.5	\$12.6	(\$5.1)
Delta	(\$0.3)	\$1.0	(\$1.3)
Manufacturing NPAT*	\$7.2	\$13.6	(\$6.4)
Group Investments (excl. HTG revaluation)	\$7.3	\$3.1	\$4.2
Corporate	(\$1.5)	(\$1.2)	(\$0.3)
NPAT* excl. HTG revaluation	\$13.0	\$15.5	(\$2.5)
HTG revaluation	(\$6.5)	\$7.6	(\$14.1)
Statutory NPAT*	\$6.5	\$23.1	(\$16.6)
EPS (cents per share)	47.1	169.5	
Ordinary Dividend (fully franked)	\$0.45	\$0.45	-

* Net Profit after tax and minority interests.

The Automotive Leather division contributed \$7.5 million NPAT compared to 1H21 of \$12.6 million. The division's sales volume and profits were primarily impacted by the global semiconductor chip shortage. Delta made a small loss for the half, primarily due to project delays and complexity.

Excluding HTG, Group Investments had a strong performance contributing \$7.3 million NPAT. During the half, the pre-tax net equity market value of the Group's investments decreased by 3% to \$185.9 million (30 June: \$191.7 million). The decrease includes the non-cash, mark-to-market revaluation of the HTG investment.

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AUTOMOTIVE LEATHER

Half-Year Ending December	1H22	1H21
Revenue (\$m)	\$56.1	\$88.8
Segment NPAT* (\$m)	\$7.5	\$12.6

* Net Profit after tax and minority interests.

During 1H22, the Automotive Leather division was negatively impacted by the global semiconductor chip shortage. While revenues fell to \$56.1 million, the management team aligned the cost base to the lower level of production. NPAT decreased to \$7.5 million with only a minor decrease in profit margins.

While the chip shortage has resulted in OEMs producing fewer vehicles and running down inventories, all our customers are experiencing strong demand for new vehicles and are also reporting record order books. The combination of strong demand and low inventory levels bodes well for future production volumes.

While vehicle production remains restricted, the semiconductor chip shortage is gradually resolving. Since November 2021, sales volumes for Automotive Leather have been increasing. In addition, the new Range Rover Sport replacement launches towards the end of the second half which should add to sales volumes. We expect sales volumes and profitability to be higher in the second half.

Several key risks may impact Automotive Leather:

- A continuation of the semiconductor chip shortages
- Further impacts from Covid-19 including production disruptions from quarantined employees
- Disruptions in the automotive industry supply chain including port closures
- Increased raw material costs, including hide prices; and
- Currency volatility, which can impact both revenues and input costs

The medium and longer-term prospects of the Automotive Leather division remain strong. Our European operations successfully renewed programs with Jaguar Land Rover. We also won new programs with Mercedes Benz and Audi under competitive market conditions. With the addition of these new programs, Automotive Leather's European sales volumes should grow from 2023 onwards.

DELTA

Half-Year Ending December	1H22	1H21
Revenue (\$m)	\$8.4	\$8.9
Segment NPAT (\$m)	(\$0.3)	\$1.0

Delta incurred a small loss for the half. The loss resulted from delays, complexity and design changes associated with the Bayswater Train Station project. The project is now progressing more steadily. Increased labour costs and skilled labour shortages are also impacting margins.

We expect Delta to return to profitability during the second half, given its current strong orderbook. There continues to be optimism regarding several larger infrastructure projects in Western Australia that are currently being tendered or proposed by the State Government.

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Risks to Delta's performance include:

- Further impacts from Covid-19
- Supply disruptions
- Skilled labour shortages
- Increased costs including labour, cement, aggregates and steel

GROUP INVESTMENTS

The division represents a growing proportion of the Group's underlying assets and valuation. We continue to grow Group Investments opportunistically with the objective of maximising shareholder value over the medium and long-term.

Half-Year Ending December	1H22	1H21
Revenue (\$m)	\$8.7	\$4.4
Segment NPAT* (\$m)	\$0.8	\$10.7
Segment NPAT* excluding HTG revaluation (\$m)	\$7.3	\$3.1

* Net Profit after tax and minority interests

The decrease in Group Investments' NPAT was mainly due to the \$6.5 million non-cash, mark-to-market revaluation of the Group's investment in HTG. The share price of HTG fell from \$0.32/share at 30 June to \$0.21/share at 31 December. This reflected similar falls in many other listed global technology companies.

Excluding the HTG revaluation, Group Investments' NPAT was \$7.3 million, which included:

- NPAT of \$2.5 million from the sale of various syndicated properties previously managed by Ascot Capital and proceeds of \$6.9 million
- NPAT of \$0.7 million from the revaluation of the Group's investment in Hastings Limited (ASX: HAS)
- NPAT of \$0.6 million, from the sale of investments in Centuria Limited (ASX:CNI) and proceeds of \$4.6 million
- NPAT of \$1.1 million from the sale of land at North Coogee and proceeds of \$3.7 million
- NPAT of \$1.8 million from investment income including dividends, rent and income distributions, which represents an increase of \$0.4 million over 1H21

The Group made new investments totalling \$10.4 million, including \$6.4 million in equities and \$4.0 million in property.

The pre-tax net equity value of Group Investments ended the half at \$185.9 million, a 3% decrease from the \$191.7 million at 30 June. The decrease was primarily driven by the revaluation of the HTG investment. The pre-tax net equity value per share was \$13.54, compared to \$14.04 at 30 June.

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Pre-Tax Net Equity Value *	\$m		\$ per share	
	Dec 2021	Jun 2021	Dec 2021	Jun 2021
Property	\$118.6	\$114.7	\$8.64	\$8.40
Equity investments at market value (excluding HTG)	\$29.0	\$29.4	\$2.11	\$2.16
Harvest Technology Group (HTG)	\$18.1	\$26.9	\$1.32	\$1.97
Fixed Income	\$1.7	\$3.2	\$0.13	\$0.24
Cash and term deposits	\$18.5	\$17.5	\$1.34	\$1.27
Overall investment portfolio	\$185.9	\$191.7	\$13.54	\$14.04

* Group share of market value less Group share of debt

Property

The Group's property investments comprise the following with SFC's share of pre-tax net equity values in parentheses:

- **Jandakot - South Connect (\$48.7 million)**

The property has an approximate net developable area of 34 hectares. It is well located to benefit from the increased demand for showrooms and logistic warehousing driven by the rapid growth in e-commerce.

The duplication of Jandakot Road and a new roundabout entrance to the site should be completed by June 2022. Clearing and earthworks on the site are almost complete. We expect that civil works will commence during 2022.

- **North Coogee - Beachside (market value of remaining land inventory: \$8.1 million)**

The property is a 2.1-hectare high-density residential subdivision.

- Stage 1 comprises 28 (27 settled), medium-density 2/3 storey, single residential lots.
- Stage 2 comprises 24 (4 settled), medium-density 2/3 storey lots.
- Stage 3 comprises three apartment sites that would accommodate approximately 110 dwellings. These sites are on hold until demand for that type of product improves.

As noted above, in the half, the Group realised NPAT of \$1.1 million and proceeds of \$3.7 million from lot sales.

- **39 Dixon Road, Rockingham (\$5.1 million)**

The property is a large format retail site, comprising three tenancies. The site is at full occupancy with three national tenants and a weighted average lease expiry of 7 years.

- **Syndicate properties (\$43.3 million)**

- **Other directly owned property (\$13.4 million)**

In accordance with the Australian Accounting Standards, each financial half-year the Group revalues its investment portfolio. This excludes directly owned property and investments in equity accounted syndicates. The required revaluations can increase or decrease earnings. While revaluations are non-cash, they may increase volatility and impact the Group's reported earnings.

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DIVIDENDS

The record date for the interim dividend of \$0.45 per share (fully franked) is 4 March 2022. The dividend will be paid on 11 March 2022.

OUTLOOK

Automotive Leather

The chip shortage is gradually improving, and sales and production volumes have shown improvement since November 2021. SFC expects sales volumes and profitability to be higher in the second half.

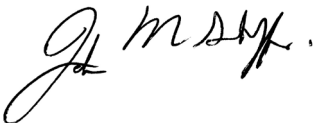
Delta

We expect Delta to return to profit for the second half.

Group Investments

Other than directly held property and equity accounted investments, our investments are revalued each period. This may result in profit volatility, both up and down.

Yours sincerely



John Schaffer AM
Chairman

The Board has authorised this document to be released to the ASX.

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