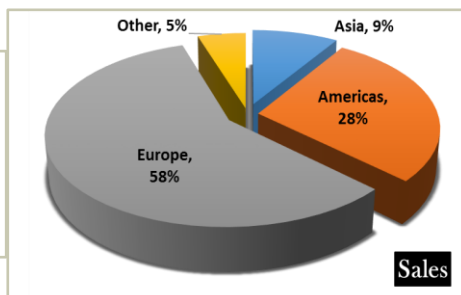


## BUCHER INDUSTRIES AG (BUCN:SWX)

Sector: Industrials (Mid-Cap)

Current Price: Fr. 227,50  
 1 YR Change: -1.56%  
 Incorporation: 1984  
 Beta (Public Source): 0.9154  
 Valuation Type: Contrarian



### Company Description

Bucher Industries AG is a Switzerland-based company that manufactures machinery and equipment used for a range of purposes, such as harvesting, producing and packaging healthy foods, keeping cities clean and roads safe or hydraulic systems. Bucher Industries operates globally in five segments: specialized agricultural machinery (Kuhn Group); municipal vehicles (Bucher Municipal); hydraulic components (Bucher Hydraulics); manufacturing equipment for the glass container industry (Emhart Glass) and juices & wine-making machineries (Bucher Specials).

### SWOT

Strength	Weaknesses
<ul style="list-style-type: none"> <li>- Historical Heritage, leading supplier of agricultural machinery.</li> <li>- Market leader in municipal vehicles for cleaning and clearing snow.</li> <li>- Low Debt.</li> </ul>	<ul style="list-style-type: none"> <li>- Demand weakening across all segments.</li> <li>- Rosy language in Annual Reports.</li> <li>- Bucher Specials sales fell significantly.</li> <li>- Currency effects significantly negative.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Agricultural recovery over the next few years.</li> <li>- Expansion of new facilities.</li> <li>- Sell side negative, pure contrarian play.</li> </ul>	<ul style="list-style-type: none"> <li>- Political uncertainty across EU may affect farming policies.</li> <li>- May need to dispose-off Bucher Specials leading to restructuring charges.</li> </ul>

### Poor Man's Valuation

(millions CHF)	Cash From Operations	Capex 5 Years	Free Cash Flow 5 Years	Plus Net Assets	WACC	Shares Out. (m)	Expected Market Cap.	Share Price	Cheap or Expensive
Basic Valuation									
Historical	996	550	446					fr. 227	
Forecasted									
Base Case 20 Years	3984	2200	1784	1116	9%	10,25	2661	fr. 260	14%
Bull 20 Year Forecast (+40%)			2498	1339	9%	10,25	3520	fr. 343	51%
Bear 20 Year Forecast (-40%)			1070	670	9%	10,25	1596	fr. 156	-31%

### Investment Summary

Bucher Industries is a good company but not strikingly cheap; a good company at a fair price. The balance sheet is extremely strong as Current Assets cover all the liabilities. The business is entirely macro dependent where agriculture exposure has contributed to a recent fall in sales. Normal DCF with 9% cost of capital values the equity of the business at ~260 CHF. It is not dirt cheap but even in bad times, there has been considerable free cash flow generation in the past. However, all segments have experienced a challenging environment, whereas the management is *still* expanding production in US and Latvia. The question I ask myself is how much would I pay for the entire business? It seems that the market prices future cashflows well but ignores the strength of the balance sheet. A pure contrarian play, we'll pass, for a while.

### A BIT CHEAP

Average volume 19.65k  
 Shares outstanding 10.25m  
 Free float 6.64m  
 P/E (TTM) 16,53  
 Market cap 2.23bn CHF  
 EPS (TTM) 13.15 CHF

### FINANCIALS

	2015	2016e
(Current Assets - All Liab.) / Market Cap.	10,7%	-
ROIC	13,3%	11,3%
Price to FCF	14,39	26,17
FCF to Price	7,0%	3,8%

### VALUATION

Growth Rate	2%
Wacc	9%
Forecast Period FCF (m)	266
Terminal value (m)	3882
PV terminal value (m)	2523
Total Equity value	2790
Plus Debt	385
Minus Cash	375
EV	2800
Shares Outstanding (m)	10,25
Fair Value Share Price	Fr. 272

"Arpadutch is a small step in the world filled with experts. I eat the cookie I make and sell, every long investment case or research that is being bought will be immediately invested through my broker.

No conflict of interest."

## Kuhn Group



Kuhn Group is the world's leading manufacturer and supplier of specialised agricultural machinery for tillage, seeding, fertilisation, spraying, landscape maintenance, hay and forage harvesting, and livestock bedding and feeding.

## Outlook

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
Kuhn group	1262	1068	904,4	765,6	727,4	727,4	763,7
%		-15%	-15%	-5%	0%	5%	10%
<b>Outlook</b>	Negative						

## Bucher Municipal



Bucher Municipal is a world-leading supplier of municipal vehicles for cleaning and clearing operations on public and private roads and other traffic areas.

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
Bucher Municipal	418,7	384,4	352,9	324,0	307,8	298,6	298,6
%		-8%	-8%	-5%	-3%	0%	3%
<b>Outlook</b>	Negative						

## Bucher Hydraulics



Bucher Hydraulics is a leading international manufacturer of state-of-the-art hydraulic systems that customers worldwide integrate into their products.

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
Bucher Hydraulics	475,4	461,4	447,8	434,6	443,3	456,6	474,9
%		-3%	-3%	2%	3%	4%	5%
<b>Outlook</b>	Neutral						

## Bucher Emhart Glass



Bucher Emhart Glass is the world's leading supplier of advanced technologies for manufacturing and inspecting glass containers.

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
Bucher Glass	389,2	359,8	332,6	307,5	292,1	283,4	283,4
%		-8%	-8%	-5%	-3%	0%	3%
<b>Outlook</b>	Negative						

## Bucher Specials



Bucher Specials comprises Bucher Vaslin, Bucher Unipektin, Bucher Landtechnik and Jetter.

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
Bucher Specials	304,5	257,2	217,2	183,5	174,3	174,3	183,0
%		-16%	-16%	-5%	0%	5%	10%
<b>Outlook</b>	Negative						

## Model & Assumptions

Revenue Builder	2014	2015	2016e	2017e	2018e	2019e	2020e
(CHF m)							
Total Sales	2805,6	2531,1	2255,0	2015,3	1944,9	1940,2	2003,6
% growth		-10%	-11%	-11%	-3%	0%	3%
EBIT	257,0	207,0	181,5	179,2	207,4	177,7	166,6
% sales	9%	8%	8%	9%	11%	9%	8%
Capex	116,0	82,0	95,8	85,6	82,6	82,4	85,1
% sales	4%	3%	4%	4%	4%	4%	4%
Depreciation & Amort.	93,0	89,0	90,2	80,6	77,8	77,6	80,1
% sales	3%	4%	4%	4%	4%	4%	4%

### Explanation

- > Sales conservatively modelled. Upside visible even with harsh forecasting.
- > EBIT kept stable with historical norms. Management is relatively efficient in fast cost cutting.
- > Capex forecasted per historical figures, may fall in reality due to pressure on sales.
- > Depreciation and amortization expected to be stable.

## Reporting Quality

Language in Annual Report	Too Rosy.
Auditor's Opinion	Clear.
ESG & Sustainability reporting	High.

### Explanation

- > Management quite often tries to paint a rosy picture even when acknowledging that sales have been declining and market is tough.
- > Auditor's opinion was clear.
- > There seems to be no reporting in the Annual Report, however the company reports extensively on ESG issue in their annual Sustainability Report.

ESG Materiality Matrix Reported & Assessed	✓
Quantitative Identification of all key ESG metrics	✓

### Usefulness of ESG metrics in current scenario?

Helps protect the downside. With clean balance sheet and strong ESG ethics, cost of capital can be adjusted or survivorship conviction over the long run can be sufficiently assumed.