EthiFinance Ratings

SCHINDLER HOLDING AG

CHE-101.862.654 CORPORATE

AA-

ISSUER RATING
Long term

OUTLOOK
Stable

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Rating Action and Rationale

- EthiFinance Ratings affirms the long-term rating of Schindler Holding AG (Schindler) at AA-, maintaining its Stable outlook.
- This rating is mainly supported by (i) Schindler's position as one of the world's four major manufacturers and services providers in the elevator and escalator (E&E) market; (ii) the long-term growth drivers of the E&E market such as urbanization, aging populations, as well as stricter safety requirements imposed by local regulators; (iii) its excellent geographic diversification, with a good balance between mature and emerging markets; and (iv) a very strong financial profile, with solid profitability and cash flow generation as well as an EthiFinance Ratings-adjusted net cash position of CHF2.2bn at end-June 2023, resulting in a negative adjusted net leverage ratio that we expect to continue over our forecast period (2023-2025).
- However, the rating is constrained by the group's slight dependence on property construction cycles, particularly relevant for the new installations business where the majority of clients are from the construction and infrastructure industries. Also, despite its leadership position, Schindler is in a market with just a few but quite sizable E&E manufacturers (Otis, KONE, and Thyssenkrupp Elevator), which means a highly competitive environment that affects pricing power.
- In line with our methodology, the capital goods industry has medium-to-high ESG risks (heatmap score between 3.5 and 3.9) given its impact on the environment, slightly constraining our industry assessment. Our assessment of the company's ESG policy is slightly positive (company ESG score of between 1 and 1.5), as the company presents a favorable ESG assessment (77/100). However, compared to the previous year, we highlight a drop in its governance score, mainly as there is no longer a separation between the chairperson and CEO positions, since Silvio Napoli (chairman of the board of directors since 2017) was appointed as CEO after Thomas Oetterli stepped down from the role in January 2022. Regarding social criteria, we note the year-on-year decrease in the accident frequency rate, as well as the group's efforts to increase the HSS management system of its production sites, with two-thirds achieving ISO 45001 certification in 2022 and a target of reaching 100% by end-2023. On the environmental side, the score was negatively impacted by the year-on-year increases in its greenhouse gas emissions (scope 1 & 2), energy and water consumption, as well as waste generated, despite a decrease in the volume of hazardous waste.

Issuer Description

Based in Switzerland, Schindler is one of the four leading players in the global E&E industry. Through its 13 production facilities located in eight different countries, Schindler manufactures and installs new elevators, escalators and moving walkways. In addition, the group provides maintenance services to a portfolio of installed units, along with the modernization of equipment reaching the end of its life. With around 70k employees at end-2022, the company operates in more than 100 countries around the globe. Schindler's largest shareholders are the founding Schindler-Bonnard families, who through a shareholder agreement, controlled 70.4% of the voting rights (shares and participation certificates) at end-2022. Schindler has been listed on the Swiss Stock Exchange since 1971 and had a market cap of CHF21.7bn (market close on 08 January, 2024).

Over 2022, Schindler generated revenues of CHF11.3bn (2.2% increase yoy), with adj. EBITDA of CHF1.4bn (12.3% margin vs 14.2% in FY21), and an EthiFinance Ratings-adjusted net cash position of CHF2.2bn at YE22. For the twelve months to end-June 2023, the group reported revenues of CHF11.7bn, and adjusted EBITDA of CHF1.5bn (13.0% margin).

Main Financial Figures

Main financial figures. Millions of CHF	FY21	FY22	FY23e	FY24e	FY25e	22vs21
Turnover	11 236	11 346	11 573	11 689	11 981	1,0%
EBITDA	1 591	1 391	1 514	1 578	1 677	-12,6%
EBITDA Margin	14,2%	12,3%	13,1%	13,5%	14,0%	-1,9pp
EBIT	1 252	1 047	1 177	1 237	1 328	-16,4%
EBIT Margin	11,1%	9,2%	10,2%	10,6%	11,1%	-1,9pp
EBT	1 231	1 024	1 151	1 217	1 308	-16,8%
Total Assets	11 974	11 808	11 791	12 284	12 872	-1,4%
Equity	4 430	4 445	4 867	5 344	5 891	0,3%
Total Financial Debt	1 348	1 263	871	876	888	-6,3%
Net Financial Debt	-2 498	-2 177	-2 786	-3 260	-3 763	12,9%
Equity/TFD	328,6%	351,9%	558,6%	610,3%	663,8%	7,1%
NFD/EBITDA (1)	-1,6x	-1,6x	-1,8x	-2,1x	-2,2x	0,0x
Funds From Operations	1 211	1 008	1 188	1 246	1 324	-1,9%
FFO/NFD (1)	-48,5%	-46,3%	-42,6%	-38,2%	-35,2%	4,5%
EBITDA/Interest	75,8x	60,5x	59,5x	80,2x	84,3x	-15,3x

(1) The “NFD/EBITDA” and “FFO/NFD” ratios are negative due to the group’s negative net adjusted debt position.

Credit Rating

Credit Rating	
Business Risk Profile	**BBB**
Industry risk assessment	*BB+*
Industry's ESG	*Negative*
Competitive Positioning	*BBB*
Governance	*A-*
Financial Risk Profile	**AAA**
Cash flow and leverage	*AAA*
Solvency	*AAA*
Company's ESG	Positive
Anchor Rating	**AA-**
Modifiers	
Rating	**AA-**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

Schindler’s rating already reflects what we consider to be a very strong financial profile. Consequently, a rating upgrade would most likely be entailed by an improvement in Schindler’s competitive positioning.

- **Long-term rating negative factors (↓)**

A rating downgrade could be entailed by a sustained deterioration in Schindler’s financial profile, which could be a consequence of a more aggressive financial policy, particularly in the event of a transformative debt-funded acquisition. For the same business risk profile, an increase in the group’s EthiFinance Ratings-adjusted net leverage ratio to above 0.5x, for a sustained period of time, could entail a long-term rating downgrade to A+.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
    - Corporate Rating Methodology - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3.Corporate Rating Methodology Long Term FR.pdf
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.