

Recommendation:  
**BUY** Q1'10 resultsRisk:  
**Medium** (Med.) Price Target:  
**EUR 60** (€60)

21 May 2010

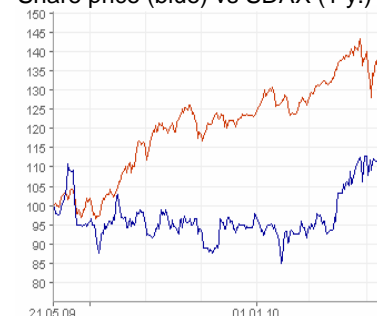
## Weak start in the first quarter

### Catching up in the second quarter

#### Revenues declined 14.4%

- The company reported final first quarter results ending March.** Revenues declined 14.4% to €62.1m compared to the first quarter 2009. EBITDA decreased 24.5% to €5.7m and EBITDA margin dropped from 10.4% to 9.2%. EBIT declined 30.9% to €4.2m and EBIT margin from 8.3% to 6.7%. Order intake declined marginally by 1.4% to €78.2m. Book-to-bill ratio reached 1.26 compared to 1.09 in 2009. Order backlog declined to €179.4m compared to €188.7m.
- The performance of the three business division was mixed.** Revenues of the business division "Mobile Transportation" increased 2.4% to €28.8m. EBIT improved 54.1% to €2.43m. Revenues of the "Stationary Transportation" division decreased 44.8% from €26.6m to €14.7m. EBIT dropped from positive €2.93m to a loss of €1.05m. The decline was mainly attributable to delayed projects due to the strong winter. Revenues of the business division "Components" increased 4.6% to €18.6m. EBIT jumped 39.6% to €3.7m. The business largely profited from strong demand for railway components in Asia.
- The weak operating performance in the first quarter was mainly related to delayed projects due to the strong and long winter. Management reiterated the guidance for the current year. We therefore leave our "BUY" recommendation and price target of €60 per share unchanged. The company is still undervalued compared to major peers.

Share price (blue) vs SDAX (1 y.)



Source: CBS Research AG, fairesearch

change	2010E		2011E		2012E	
	new	old	new	old	new	old
Revenues	-	257.4	-	265.3	274.3	-
EBITDA	29.9	25.5	32.7	28.3	33.5	-
EPS	6.32	5.61	7.43	6.68	7.62	-

Internet: [www.schaltbau.de](http://www.schaltbau.de) Sector: Mechanical  
 WKN: 717030 Engineering  
 Reuters: SLTG.DE ISIN: DE0007170300  
 Bloomberg: SLT: GR

#### Share data:

Share Price (Quote: 10:06): **EUR 41.74**  
 Shares outstanding (mill.): 1.87  
 Market capitalisation: EUR 78.1m  
 Enterprise Value (EV): EUR 117.8m  
 Ø daily trading volume (no. of shares): 6,030

#### Performance data:

High 52 weeks: EUR 45.41  
 Low 52 weeks: EUR 33.40  
 Absolute performance: (12 months) 6.2%  
 Relative performance (SDax):  
 1 month 3.9%  
 3 months 8.1%  
 6 months 10.4%  
 12 months -24.0%

#### Shareholders:

Dr. Cammann family: 11.81%  
 Zimmermann family: 10.09%  
 Golden Peaks Capital: 5.35%  
 IFOS International Fonds Service: 3.52%  
 Free float: 69.23%

#### Financial calendar:

Next event: Q2'10 – 13<sup>th</sup>, Aug. 10

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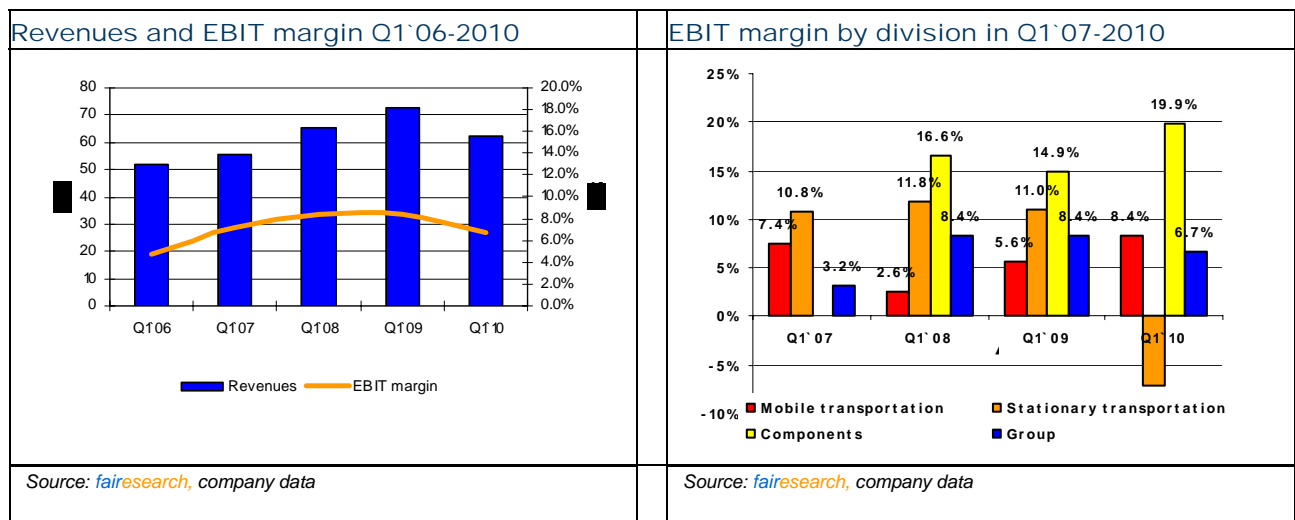
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#### Key data

Y/E 31.12., in €m	2008	2009	2010E	2011E	2012E
Revenues	280	270	257	265	274
EBITDA	27.8	26.5	29.9	32.7	33.5
EBIT	21.9	20.3	23.9	26.6	27.2
Net profit	11.8	12.3	13.0	15.2	15.6
EPS	5.94	6.19	6.32	7.43	7.62
Dividend	0.50	0.70	0.50	0.60	0.70
EBITDA margin	9.9%	9.8%	11.6%	12.3%	12.2%
EBIT margin	7.8%	7.5%	9.3%	10.0%	9.9%
EV/EBITDA	4.6	4.3	3.9	3.6	3.5
EV/EBIT	5.9	5.6	4.9	4.4	4.3
P/E	6.9	5.7	6.6	5.6	5.5

Source: fairesearch, CBS Research AG, company data

## Investment Summary



The company reported final first quarter results. Revenues declined 14.4% to €62.1m. EBITDA dropped 24.5% to €5.7m and EBITDA margin declined from 10.4% to 9.2%. EBIT was down 30.9% to €4.2m and EBIT margin declined from 8.3% to 6.7%. Order intake of the group was only marginally down to €78.2m compared to €79.3m in 2009. Order backlog declined 4.9% to €179.4m.

## Book-to-bill ratio still on a high level

## Order intake and book-to-bill ratio by division

in €m	Q1'08	Q1'09	Q1'10	% +/-
Order intake	69.1	79.3	78.2	-1.4%
Mobile transportation	32.6	39.6	34.4	-13.0%
Stationary transportation	26.9	20.8	21.2	2.0%
Components	23.0	18.9	22.5	19.3%
<b>Book-to-bill ratio</b>	<b>1.06</b>	<b>1.09</b>	<b>1.26</b>	

Source: [fairesearch](#), company data

Revenues of the business division "Mobile transportation technology" increased 2.4% to €28.8m. EBIT jumped 54.1% to €2.43m and EBIT margin increased from 5.6% to 8.4%. The strong performance was driven by Door Systems for Railway Vehicles. Order intake declined 13% to €34.4m.

## Revenues by business division Q1'08 – Q1'10

in €m	Q1'08	Q1'09	Q1'10	% +/-
Revenues	65.1	72.6	62.2	-14.3%
Mobile transportation	23.9	28.2	28.8	2.4%
Stationary transportation	24.6	26.6	14.7	-44.8%
Components	16.6	17.8	18.6	4.6%

Source: [fairesearch](#), company data

Revenues of the business division Stationary traffic technology dropped 44.8% to €14.7m. The business also reported an EBIT loss of €1.05m. The weak operating performance was attributable to the strong and long winter (delays in orders for level crossings and point heating systems). In addition the business unit Brake Systems suffered due to the weak economic development of container terminals and consequently lower infrastructure investments, e.g. for container handling

Operating performance influenced negatively by the long winter

cranes. Konecranes for example reported a weak demand for new equipment (new cranes) in Western Europe and North America. Investments in ports and shipbuilding remained at a very low level. In Asia however demand is still growing. We also expect strong demand from the wind power industry. In 2009 the company started to deliver a new braking system to the wind power industry. Order intake increased marginally by 2% to €21.2m.

The component division reported a strong operating performance. EBIT increased 39.6% to €3.70m. Revenues increased 4.1% to €18.6m. According to the management the business with Switches and Electrics for rolling stock mainly contributed to the strong operating performance. The strong operating performance will also continue in the second quarter. Order intake increased 19.3% to €22.5m.

Components with  
strong order intake

## Refinancing successfully accomplished

In March management successfully executed the refinancing of the group. In 2010 alone €24.6m financial liabilities were due to banks or 58% of total liabilities up to 2014 and further. Therefore management optimized the financial structure and signed an unsecured loan agreement worth €50m with major German banks. The financing has been committed up to March 2013. In the first quarter short-term financial liabilities declined from €24.8m at the end of 2009 to nearly €8m. Long-term liabilities however increased from €29.5m to €55.8m. Total debt increased by €9.5m and net debt by €4.8m to €50.5m. In 2009 the company paid an average interest rate of 4.3%. We assume that management was able to reduce interest rate further (estimate: 3.9%).

Financing secured

The fundamentals will improve further. At present equity increased marginally to €21.7m and the equity ratio declined only from 12.2% at the end of December to 11.8% as end of March.

## Expansion abroad will be accelerated

The new financing structure will also help management to accelerate expansion abroad. In January management repurchased a 67% stake in Bode Corporation of Spartanburg, USA. The new company will be the legal hub for the US-business. So far the company did not contribute significantly to revenues. In 2009 the company sold its joint venture Bode Beijing in China because Schaltbau management followed a different market strategy. We assume that management is now streamlining the legal structure of the group to be prepared for further acquisitions abroad.

Streamlining the legal  
structure

## New index perspective

Schaltbau is heading for the SDAX. In 2009 Deutsche Börse AG changed the industry segment where the company should belong to. Previously Schaltbau AG was heading for the TecDAX however the hurdle rate (trading volume) was too high. The company which is not yet part of the SDAX, was now ranked 98 by trading volume and 108 by market capitalization.

## Guidance reiterated

Management reiterated guidance for the current year despite the weak operating performance in the first quarter. Revenues are expected to reach last years level. EBIT will decline to €17.5m because management will increase strategic

investments. Group profits are expected to reach €11.6m and EPS €5.40. The valuation based on P/E multiples clearly indicates that the company is undervalued.

#### Consensus and fairesearch estimates 2010E-2012E

<b>EPS forecasts</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>
Consensus	5.53	6.45	7.59
<b>fairesearch</b>	<b>6.32</b>	<b>7.43</b>	<b>7.62</b>
Consensus P/E	7.5	6.5	5.5
<b>fairesearch P/E</b>	<b>6.6</b>	<b>5.6</b>	<b>5.5</b>

Source: [fairesearch](#), company data

## First quarter results

### First quarter results 2006-2010

in €m	Q1'06	Q1'07	Q1'08	Q1'09	Q1'10	% +/-
Revenues	52.1	55.6	65.1	72.6	62.1	-14.4%
Mobile traffic technology	36.2	38.9	23.9	28.2	28.8	2.4%
Stationary traffic technology	15.9	16.7	24.6	26.6	14.7	-44.8%
Components	n/a	n/a	16.6	17.8	18.6	4.1%
<b>Changes in stocks of goods</b>	<b>0.7</b>	<b>-0.5</b>	<b>1.4</b>	<b>-1.2</b>	<b>3.1</b>	
Other capitalized work	-0.1	0.1	0.2	0.2	0.4	88.1%
<b>Total operating performance</b>	<b>52.7</b>	<b>55.2</b>	<b>66.7</b>	<b>71.6</b>	<b>65.7</b>	<b>-8.3%</b>
Material expenses	26.6	28.1	34.4	36.6	32.8	-10.5%
Personnel expenses	17.8	18.0	19.5	21.0	21.6	3.0%
Depreciation	1.2	1.3	1.4	1.5	1.5	1.0%
Other income	0.2	0.4	0.3	0.8	1.1	32.8%
Other expenses	4.8	4.2	6.2	7.2	6.6	-8.3%
<b>Total Expenses</b>	<b>50.2</b>	<b>51.2</b>	<b>61.2</b>	<b>65.5</b>	<b>61.5</b>	<b>-6.2%</b>
EBITDA	3.7	5.3	6.9	7.6	5.7	-24.5%
<b>EBITDA margin</b>	<b>7.2%</b>	<b>9.5%</b>	<b>10.6%</b>	<b>10.4%</b>	<b>9.2%</b>	
EBITA	2.5	4.0	5.5	6.1	4.2	-30.9%
<b>EBITA margin</b>	<b>4.8%</b>	<b>7.2%</b>	<b>8.4%</b>	<b>8.3%</b>	<b>6.7%</b>	
Amortisation	0.0	0.0	0.0	0.0	0.0	
EBIT	2.5	4.0	5.5	6.1	4.2	-30.9%
<b>EBIT margin</b>	<b>4.8%</b>	<b>7.2%</b>	<b>8.4%</b>	<b>8.3%</b>	<b>6.7%</b>	
Income/losses from at equity	0.0	0.2	0.2	0.2	0.2	15.4%
Income/losses from participations	0.0	0.0	0.0	0.0	0.0	
Other financial results	0.0	0.0	0.0	0.0	0.0	
<b>Total financials</b>	<b>0.0</b>	<b>0.2</b>	<b>0.15</b>	<b>0.16</b>	<b>0.19</b>	
Interest income	0.0	0.1	0.1	0.0	0.0	16.7%
Interest expense	-0.9	-1.3	-1.6	-1.5	-1.4	-6.2%
<b>Interest results</b>	<b>-0.9</b>	<b>-1.3</b>	<b>-1.5</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-6.4%</b>
PBT	1.6	2.9	4.114	4.777	3.023	-36.7%
Taxes	0.5	0.5	0.6	0.5	0.5	9.8%
Tax rate	33.0%	17.1%	14.7%	10.5%	18.2%	
<b>Profit after tax</b>	<b>1.06</b>	<b>2.37</b>	<b>3.51</b>	<b>4.28</b>	<b>2.47</b>	<b>-42.2%</b>
Minorities	-0.6	-0.6	-0.4	-0.6	-0.6	-4.7%
<b>Net reported profit</b>	<b>0.50</b>	<b>1.75</b>	<b>3.13</b>	<b>3.66</b>	<b>1.89</b>	<b>-48.5%</b>
<b>EPS reported profit</b>	<b>0.26</b>	<b>0.94</b>	<b>1.67</b>	<b>1.96</b>	<b>1.01</b>	<b>-48.5%</b>

Source: [fairresearch](#), company data

## Key ratios

## Key ratios 2004-2012E

	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Revenues (€m)	215.0	203.9	212.7	232.1	280.2	269.8	257.4	265.3	274.3
EBITDA (€m)	14.1	17.1	16.8	19.4	27.8	26.5	29.9	32.7	33.5
EBITA (€m)	9.1	12.1	11.8	14.1	21.9	20.3	23.9	26.6	27.2
EBIT (€m)	9.1	12.1	11.8	14.1	21.9	20.3	23.9	26.6	27.2
Net Profit (€m)	2.0	3.9	5.0	7.2	11.8	12.3	13.0	15.2	15.6
<b>Margins</b>									
EBITDA margin	6.5%	8.4%	7.9%	8.3%	9.9%	9.8%	11.6%	12.3%	12.2%
EBITA margin	4.2%	5.9%	5.5%	6.1%	7.8%	7.5%	9.3%	10.0%	9.9%
EBIT margin	4.2%	5.9%	5.5%	6.1%	7.8%	7.5%	9.3%	10.0%	9.9%
Return on equity	-6.9%	-23.6%	-40.6%	-171.8%	190.7%	70.2%	51.3%	48.3%	39.1%
ROCE (incl.goodwill)	19.6%	23.6%	18.5%	22.7%	22.3%	18.2%	29.4%	23.8%	21.5%
<b>Balance Sheet</b>									
Enterprise Value (EV)	78.5	91.6	97.8	120.9	128.0	114.6	117.8	117.3	118.1
Net Debt/(cash) (€m)	70.1	58.5	55.2	60.5	56.6	52.8	39.7	37.5	38.9
Capital Employed (avg.)	67.4	69.7	71.8	76.0	82.5	90.4	99.9	107.8	115.0
Net working capital(€m)	30.16	32.76	35.67	38.77	45.54	53.71	61.30	65.33	71.23
Shareholders equity(€m)	-27.3	-15.3	-10.1	-2.1	8.6	20.5	32.1	40.2	48.1
Equity/Total assets (%)	-19.1%	-11.2%	-7.2%	-1.3%	5.1%	12.2%	17.7%	21.5%	25.1%
Net debt/Equity (%)	86.1%	62.4%	54.4%	47.6%	42.4%	44.6%	33.8%	32.5%	33.3%
<b>Capital Efficiency/Solvability</b>									
Sales/CE (incl. goodwill) (x)	3.0	2.7	2.7	2.8	3.2	2.8	2.5	2.3	2.3
Sales/Fixed assets (x)	5.6	5.4	5.7	5.8	7.0	6.5	5.9	5.8	5.7
Sales/Net working capital (x)	7.1	6.2	6.0	6.0	6.2	5.0	4.2	4.1	3.9
Inventories/Sales (days)	67.2	70.5	71.6	72.0	68.5	54.9	63.3	64.4	65.4
Trade receivables/Sales (days)	45.1	49.2	47.9	52.4	42.7	50.5	56.1	58.2	60.2
Trade creditors/Sales (days)	27.9	29.7	29.3	33.7	25.5	20.2	19.7	20.6	19.6
CAPEX/Depreciation (%)	0.9	0.7	0.7	0.8	0.7	0.7	0.8	0.9	1.0
Interest cover (x)	1.9	2.7	2.7	2.5	3.4	3.5	4.4	5.2	5.7
Dividend payout (%)	0.0%	2.4%	5.6%	7.8%	7.9%	10.6%	7.2%	7.4%	8.4%
Tax ratio	36.2%	36.0%	29.9%	18.6%	17.3%	16.7%	22.0%	22.0%	23.0%
<b>Valuation</b>									
EPS (€)	1.42	2.34	2.67	3.85	5.94	6.19	6.32	7.43	7.62
CFPS (€)	5.41	5.55	5.36	6.66	9.55	9.90	10.13	11.43	11.72
DPS (€)	0.00	0.06	0.15	0.30	0.50	0.70	0.50	0.60	0.70
Book Value (€)	(22.05)	(10.32)	(6.58)	(2.24)	3.33	9.42	13.51	16.88	21.37
Adjusted Book Value (€)	(25.87)	(13.92)	(9.86)	(5.02)	0.62	6.71	10.69	13.94	18.32
P/E	6.6	9.8	9.3	9.3	6.9	5.7	6.6	5.6	5.5
P/CF	1.7	4.1	4.6	5.4	4.3	3.5	4.1	3.7	3.6
P/Book	-0.4	-2.2	-3.8	-15.9	12.4	3.7	3.1	2.5	2.0
Dividend yield(%)	0.0%	0.3%	0.6%	0.8%	1.2%	2.0%	1.2%	1.4%	1.7%
EV/Sales (x)	0.4	0.4	0.5	0.5	0.5	0.4	0.5	0.4	0.4
EV/EBITDA (x)	5.6	5.4	5.8	6.2	4.6	4.3	3.9	3.6	3.5
EV/EBIT (x)	8.7	7.6	8.3	8.6	5.9	5.6	4.9	4.4	4.3
EV/Capital Employed (x)	1.2	1.3	1.4	1.6	1.6	1.3	1.2	1.1	1.0
EV/CE (incl. goodwill) (x)	1.1	1.2	1.3	1.5	1.5	1.2	1.1	1.0	1.0

Source: [fairresearch](#), company data

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#### Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

BUY: The expected performance of the share price is above +10%.

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
6 <sup>th</sup> , May 2009	Buy	EUR 34.75 (Prel.Q1'09)	60.00 EUR
23 <sup>rd</sup> , July 2009	Buy	EUR 37.51 (Prel.Q2'09)	60.00 EUR
3 <sup>rd</sup> , November 2009	Buy	37.00 EUR (Preview Q3)	60.00 EUR
19 <sup>th</sup> , November 2009	Buy	35.53 EUR (Final Q3)	60.00 EUR
8 <sup>th</sup> , February 2010	Buy	36.75 EUR (Prel.2009)	60.00 EUR

21 <sup>st</sup> , May 2010	Buy	41.74 EUR (Final Q1)	60.00 EUR
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Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

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