LBBW
Landesbank Baden-Württemberg

11 March 2008

Institutional Equity Research

Company

Flash

Schaltbau

Rating	Buy (Unchanged)

- 2007 successful closing
- EBIT margin exceeds 6.0 % for the first time
- Orders situation is promising
- Confirmation of rating (Buy) and price target (€ 46.0)

Buy

Target price: € 46.00

Price: € 39.10

03/11/08

10:51 h

Last rating/Target Pr.:

Buy /€ 46.00

Last analysis:

12/04/2007

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 73.1 m

Index: CDAX

Index weight: n.a.

Beta: 1.20

Accounting:

IFRS

Calendar:

FY07 on 23. April 2008

Dividend 2008e:

0.30 €

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

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Schaltbau

03/11/2008

Topic: Interim results for 2007

Success in 2007

Schaltbau reported good interim results with an EBIT margin in excess of 6.0 % for the first time. Order intake developed positively as well, raising expectations for growth in the current year. Our estimates already include revenue and earnings growth in the current year. We therefore see no need to adjust our previous forecast. In our view the valuation testifies to the stock's further price potential, hence the unchanged rating and the price target.

Share data	EPS		EV/Sales	EV/EBIT	PER
	current	previous			
2006	**2,67**	2,67	0,6	11,1	14,7
2007e	**3,85**	3,60	0,5	9,0	10,1
2008e	**4,66**	4,66	0,5	8,0	8,4
2009e	**5,35**	5,35	0,5	7,3	7,3

Company data	Revenues	EBITDA	EBIT	EBIT margin	Net Profit
	€m	€m	€m	in %	€m
2006	212,7	16,8	11,8	0,1	5,0
2007e	232,1	19,9	14,1	0,1	7,2
2008e	248,2	21,9	15,7	0,1	8,7
2009e	257,0	23,3	17,0	0,1	10,0

- Schaltbau exceeded its own forecasts for 2007 for revenues and earnings
- Order intake increased nearly 17 % year on year
- Key indicators also surpassed our overall forecast for 2007
- Raise in dividends from € 0.15 (2006) to € 0.30 (2007)
- Initiation of a share buyback programme

Valuation

Discounted cash flow valuation

- We use a three-phase model to determine free cash flows. Precise cash flow forecasts form the basis of the detailed planning period from 2008 to 2010. In the second phase (2011-2017) value drivers will be enlisted to determine free cash flows. The terminal value will be calculated in the third phase. We assume a growth rate of 0.5 %.

- We have made the following assumptions for our model:

DCF model assumptions	
Risk free interest	4,0%
Market risk premium	5,2%
Beta-factor	1,0
Cost of equity	9,2%
Cost of debt	4,9%
Target equity ratio	70,0%
WACC	7,9%
Terminal growth rate	0,5%

Source: LBBW

- The free cash flow forecast is as follows:

Free cash flow (€m)	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2016e
Revenues	248	257	263	270	277	282	288	294	300	306
Growth (yoy)	*16,7%*	*3,5%*	*2,5%*	*2,5%*	*2,5%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*
EBIT	**16**	**17**	**17**	**18**	**18**	**18**	**19**	**19**	**19**	**20**
EBIT margin	*6,3%*	*6,6%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*	*6,5%*
- Income tax on EBIT	3	3	4	4	4	5	5	5	5	6
Tax rate	*19,7%*	*19,4%*	*20,6%*	*23,0%*	*25,0%*	*25,0%*	*26,0%*	*27,0%*	*28,0%*	*29,0%*
+ Depreciation & amortization	6	6	7	7	7	7	7	7	7	8
in % of revenues	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Pension provisions	19	19	19	20	21	21	22	22	22	23
in % of revenues	7,7%	7,4%	7,2%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%	7,5%
+ Change of pension provisions	-0,2	-0,1	0,0	1,2	0,5	0,4	0,4	0,4	0,4	0,4
= Operating cash flow	**19**	**20**	**20**	**22**	**21**	**21**	**21**	**22**	**22**	**22**
- Capital expenditure	7	7	7	8	8	8	8	8	8	9
in % of revenues	*3,0%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*	*2,8%*
Net working capital	27	27	28	28	28	28	29	29	30	31
in % of revenues	*10,9%*	*10,6%*	*10,5%*	*10,5%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*	*10,0%*
- Change of net working capital	4	0	0	1	-1	1	1	1	1	1
= Free cash flow	**7**	**13**	**12**	**13**	**14**	**13**	**13**	**13**	**13**	**13**
Present value	**7**	**11**	**10**	**10**	**10**	**8**	**8**	**7**	**7**	**6**

Source: LBBW

- We obtain a fair value for the share of € 46.32 based on the DFC model. This indicates further share price potential amounting to 18.5 % based on the current share price of € 39.10.

Calculation of fair value per share (€m)	
Present value of free cash flow in planned years	83
+ Present value of terminal value	87
= Enterprise value	**170**
Share of TV on enterprise value	*51,3%*
- Net financial debt	62
- Pension liabilities	19
- Minority interests	2
= Market capitalization	**87**
/ Number of shares (m)	1,87
Fair value per share	**46,32**

Source: LBBW

Recommendation

- Schaltbau reported good interim results with an EBIT margin in excess of 6.0 % for the first time. Order intake developed positively as well, raising expectations for growth in the current year. Our estimates already include revenue and earnings growth in the current year. We therefore see no need to adjust our previous forecast. In our view the valuation testifies to the stock's further price potential, hence the unchanged rating and the price target.

Development last business year

Schaltbau	**FY 2007**			**FY 2006**	
€m	reported	LBBWe	difference		y-o-y
order intake	271,9	260,0	4,6%	232,7	16,8%
net Sales	232,1	232,2	0,0%	212,7	9,1%
EBIT	14,1	13,7	2,9%	11,8	19,5%
EBIt margin	*6,1%*	*5,9%*	0,0%	*5,5%*	
net earnings	7,2	6,7	7,0%	5,0	44,0%
EPS	3,85	3,6	6,9%	2,67	44,2%
DPS	0,30	0,3	20,0%	0,15	100,0%

source: Schaltbau, LBBW

Schaltbau	**Q4 2007**			**Q4 2006**	
€m	reported	LBBWe	difference		y-o-y
order intake	62,7	50,8	23,4%	61,0	2,8%
net Sales	64,2	64,3	-0,2%	53,6	19,8%
EBIT	3,6	3,2	12,1%	3,1	15,4%
EBIt margin	*5,6%*	0,0	0,0%	0,1	0,0%
net earnings	1,3	0,8	62,5%	0,9	49,4%
EPS	0,69	0,4	56,8%	0,5	38,0%
DPS	-	-		-	

source: Schaltbau, LBBW

- Schaltbau met our revenue expectations for 2007 and exceeded them with regard to both operating and net results. While our forecast was for an EBIT margin just beneath 6.0 %, the company finished 2007 just over that mark.
- Developments in order intake were particularly encouraging as new orders totalled € 271.9 m last year. Q4 was especially strong as order volume reached € 62.7 m, exceeding our forecast.
- Earnings per share of € 3.85 clearly exceeded our expected € 3.60. Our dividend forecast was also surpassed. Schaltbau will pay a dividend of € 0.30. We forcasted € 0.25.
- Net financial debt was reduced to € 41.4 m over the previous year's € 43.8 m.
- Furthermore, Schaltbau initiated a share buyback programme on 10 March that will continue through 31 March. No more than 5,000 no-par shares will be repurchased.
- The detailed annual report 2007 will be available 23 April 2008.

Outlook

- Schaltbau made some statements regarding 2008 and 2009 based on the Q3 report. These have neither been confirmed nor refuted. The company guidance earmarks an EBIT of approximately € 15.5 m for the current year and a net profit for the year of € 9.7 m. Earnings per share should be between € 4.50 and € 4.70. Earnings figures should increase by a further 10 % in 2009.
- The order backlog should have reached some € 181 m at the end of 2007. At the same time, we expect order intake to reach € 260 m for the current year – only slightly less than the previous year. Based on these considerations, we hold that the revenue forecast of € 248.2 m we made is attainable. Our forecast for sales revenue in 2009 also remains unchanged at € 257.0 m
- It is our estimation that Schaltbau is on track with regards to the EBIT margin. The company surpassed the 6.0 % mark in 2007 and we are confident this will continue to improve. We consider an EBIT margin of 6.3 % attainable in the current year, equalling an EBIT of € 15.7 m. Our earnings per share forecast of € 4.66 in 2008 is within Schaltbau's target range. For 2009 we forecast EBIT will increase an additional 8.3 % to € 17.0 m. Earnings per share should then reach € 5.35.

Profit & Loss Account €m	FY 2005	FY 2006	FY 2007e	FY 2008e	FY 2009e
Net sales	**203,9**	**212,7**	**232,1**	**248,2**	**257,0**
Change y-o-y	*-5,2%*	*4,3%*	*9,1%*	*6,9%*	*3,5%*
Change in finished goods	0,7	3,1	0,0	0,0	0,0
Total performance	**204,5**	**215,8**	**232,1**	**248,2**	**257,0**
Change y-o-y	*-4,5%*	*5,5%*	*7,6%*	*6,9%*	*3,5%*
Costs of materials	-103,7	-110,3	-118,0	-126,0	-130,0
Gross profit	**100,9**	**105,5**	**114,1**	**122,2**	**127,0**
Gross profit margin	*49,5%*	*49,6%*	*49,2%*	*49,2%*	*49,4%*
Personal expenses	-70,4	-71,9	-78,0	-83,2	-87,0
Depreciation	-5,0	-5,0	-5,8	-6,2	-6,3
Other operating income	4,5	2,7	2,2	2,5	2,9
Other operating expenses	-17,9	-19,5	-18,4	-19,6	-19,6
EBIT	**12,1**	**11,8**	**14,1**	**15,7**	**17,0**
EBIT margin	*5,9%*	*5,5%*	*6,1%*	*6,3%*	*6,6%*
Financial income	-4,2	-3,2	-3,2	-3,5	-3,5
Extraordinary income	0,0	0,0	0,0	0,0	0,0
Extraordinary expenses	0,0	0,0	-0,5	0,0	0,0
EBT	**7,9**	**8,6**	**10,4**	**12,2**	**13,5**
EBT margin	*3,9%*	*4,0%*	*4,5%*	*4,9%*	*5,3%*
Income taxes	-2,8	-2,6	-2,2	-2,3	-2,3
Tax rate	*36,0%*	*29,9%*	*21,2%*	*18,9%*	*17,0%*
Minority interests	-1,1	-1,1	-1,0	-1,2	-1,2
Net earnings	**3,9**	**5,0**	**7,2**	**8,7**	**10,0**
Earnings per share in €	**2,34**	**2,67**	**3,85**	**4,66**	**5,35**

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Percentage of companies within this rating category		
Buy	Hold	Sell
57.0 %	31.7 %	11.3 %

Rating History

Date	Rating
11/14/2005	Buy

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