



11 October 2007

Equity Research Institutional

Company

Flash

# Schaltbau

**Rating**

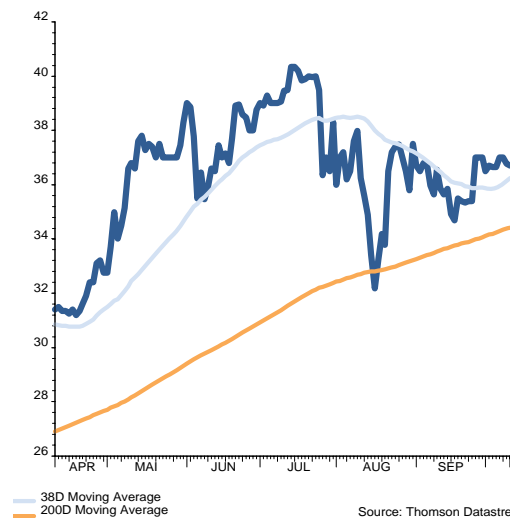
**Buy (unchanged)**

Growing earnings power ▶

Bubenzer acquisition increases internationalisation and diversification ▶

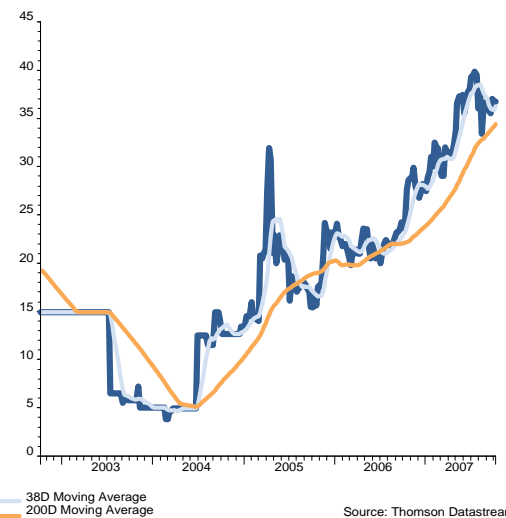
Demand and order backlog at a high level ▶

Price potential confirmed: target price € 42 ▶



— 38D Moving Average  
— 200D Moving Average

Source: Thomson Datastream



— 38D Moving Average  
— 200D Moving Average

Source: Thomson Datastream



## Buy

**Target price: € 42.00**

Price: € 36.70

10/10/07

5.00 p.m.

Last rating/Target Pr.:

Buy /€ 42.00

Last analysis:

05/25/2007

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 68.5 m

Index: CDAX

Index weight: n.a.

Beta: 1.20

Accounting:

IFRS

Calendar: Q3 reporting

on 16 Nov. 2007

Dividend 2007e:

0.25 €

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

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## Schaltbau

11 October 007

Event: Company Update

### Schaltbau remains on a solid upward trend

Given the strong demand for railway infrastructure and industrial products, and the substantial order backlog, we evaluate positively Schaltbau Group's expanding internationalisation and diversification. We are therefore marginally raising our earnings estimates and confirm our Buy rating, as well as our target price of €42.

Share data	EPS		EV/Sales	EV/EBIT	PER
	current	previous			
2006	2,67	2,67	0,6	10,7	13,9
2007e	3,64	3,53	0,5	8,6	10,2
2008e	4,52	4,17	0,5	7,4	8,2
2009e	5,14	4,87	0,5	6,8	7,2

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	232,2	20,1	14,3	0,1	6,8
2008e	248,2	22,6	16,4	0,1	8,5
2009e	256,0	23,8	17,5	0,1	9,6

- Change the sales mix improves earnings power.
- Strong demand for railway as well as industrial products is reflected in the historically high order backlog.
- Good capacity utilisation ensures higher margins via economies of scale.
- Acquisition of the Bubenzer Group strengthens Schaltbau's activities outside Germany and makes the group the leading international company for crane brakes in the maritime sector.
- The capital investment backlog at Deutsch Bahn AG is unwinding and leads us to anticipate further orders.

Please note the disclaimer on the last page of this study.

## Valuation

### Multiple-based valuation

	Share price	Enterprise	EV/Sales		EV/EBITDA		PER	
	10 October 2007	Value (€m)	2007e	2008e	2007e	2008e	2007e	2008e
Dürr	34,40 €	651	0,44	0,43	12,2	9,2	22,4	15,5
Funkwerk	19,15 €	165	0,61	0,59	12,4	5,3	17,7	11,9
GEA Group	25,82 €	4 657	0,91	0,84	12,0	29,5	26,2	16,6
Gildemeister	20,44 €	981	0,65	0,61	8,9	1,8	19,5	15,6
Heidelberger Druck	31,85 €	3 533	0,89	0,83	9,9	6,3	13,5	10,7
Jungheinrich	31,68 €	1 029	0,51	0,48	7,3	4,7	13,0	10,6
Krones	58,99 €	1 835	0,86	0,80	12,2	8,4	19,1	15,3
König & Bauer	25,42 €	450	0,25	0,24	8,1	2,0	10,3	9,2
Rheinmetall	59,79 €	2 961	0,75	0,71	11,1	27,7	14,4	10,9
Vossloh	79,63 €	1 315	1,00	0,95	9,8	2,8	15,2	13,5
<b>mean</b>			<b>0,69</b>	<b>0,65</b>	<b>10,4</b>	<b>9,8</b>	<b>17,1</b>	<b>13,0</b>
<b>Schaltbau</b>	<b>36,70 €</b>	<b>126</b>	<b>0,54</b>	<b>0,49</b>	<b>8,8</b>	<b>7,7</b>	<b>10,2</b>	<b>8,2</b>
difference to mean			-21,0%	-24,2%	-15,5%	-21,6%	-40,6%	-37,0%

Source: LBBW

- In our estimation, Schaltbau Group's significant upward trend in sales and earnings is still not adequately reflected in the stock market valuation.
- Based on 2007 multiples, Schaltbau has a lower valuation compared to the peer group. With a PER of 10.2 as well as EV/Sales and EV/EBIT multiples of 0.54 and 8.8, respectively, Schaltbau's multiples are significantly lower than the peer group.
- The discrepancy is also just as evident in forecasts for 2008. We see further price potential for the Schaltbau stock given the continued earnings dynamic at the operating level and given a rapid and successful integration of the Bubenzer acquisition.

### Discounted cash flow valuation

- We rely on a three-phase model to derive the free cash flow. The detailed projection period from 2007 to 2009 is based on explicit cash flow projections. In the second phase (2010 to 2016) free cash flows are generated using value drivers. In the third phase we have calculated the terminal value. We assume here a growth rate of 0.5%.

- Our model is based on the following assumptions.

#### DCF model assumptions

Risk free interest	4,3%
Market risk premium	4,8%
Beta-factor	1,0
Cost of equity	9,1%
Cost of debt	5,1%
Target equity ratio	90,0%
WACC	8,7%
Terminal growth rate	0,5%

Source: LBBW

- The free cash flow projections show the following picture:

Free cash flow (€m)	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Revenues	232	248	256	262	269	273	277	280	283	285
<i>Growth (yoy)</i>	9,2%	6,9%	3,1%	2,5%	2,5%	1,5%	1,5%	1,0%	1,0%	1,0%
<b>EBIT</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>
<i>EBIT margin</i>	6,2%	6,6%	6,8%	6,7%	6,7%	6,7%	6,7%	6,7%	6,7%	6,7%
- Income tax on EBIT	3	4	4	4	5	5	5	5	5	5
<i>Tax rate</i>	17,5%	23,2%	24,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%	25,0%
+ Depreciation & amortization	6	6	6	7	7	7	7	7	7	7
<i>in % of revenues</i>	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	21	21	21	22	22	22	22
<i>in % of revenues</i>	8,3%	7,7%	7,4%	8,0%	7,8%	7,8%	7,8%	7,8%	7,8%	7,8%
+ Change of pension provisions	-0,1	-0,1	-0,1	2,0	0,0	0,3	0,3	0,2	0,2	0,2
<b>= Operating cash flow</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>22</b>	<b>20</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>22</b>
- Capital expenditure	8	7	6	7	7	7	7	7	7	7
<i>in % of revenues</i>	3,3%	2,8%	2,6%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Net working capital	26	28	28	29	30	30	30	31	31	31
<i>in % of revenues</i>	11,1%	11,1%	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%
- Change of net working capital	3	2	1	1	1	0	0	0	0	0
<b>= Free cash flow</b>	<b>7</b>	<b>10</b>	<b>13</b>	<b>14</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Present value</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>11</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>

Source: LBBW

- Based on the DCF method, we derive a valuation of €44.18 per share. Comparing with the current share price as well as the multiple-based valuation indicates further share price potential.

### Calculation of fair value per share (€m)

Present value of free cash flow in planned years	85
+ Present value of terminal value	81
<b>= Enterprise value</b>	<b>166</b>
<i>Share of TV on enterprise value</i>	<i>48,8%</i>
- Net financial debt	62
- Pension liabilities	19
- Minority interests	2
<b>= Market capitalization</b>	<b>83</b>
/ Number of shares (m)	1,87
<b>Fair value per share</b>	<b>44,18</b>

Source: LBBW

## Recommendation

Given the strong demand for railway infrastructure and industrial products, and the substantial order backlog, we evaluate positively Schaltbau Group's expanding internationalisation and diversification. We are therefore marginally raising our earnings estimates and confirm our Buy rating, as well as our target price of € 42.

## Development current business year

Schaltbau €m	H1/2007	H1/2006	y-o-y
order intake	131,1	115,0	14,0%
order backlog	151,0	117,8	28,2%
net sales	109,7	106,2	3,3%
EBIT	7,3	5,8	25,9%
<i>EBIt margin</i>	<i>6,7%</i>	<i>5,5%</i>	21,8%
net earnings	4,9	3,2	53,1%
EPS	2,15	1,29	66,7%

- The significant increase in demand both in the railway as well as in the industrial sector is reflected in the substantial gain in orders and earnings. Particularly Schaltbau is currently profiting from the strong domestic market.
- Both segments are currently making a positive contribution in improving the EBIT margin. Particularly the smaller segment Stationary Transportation Technology (ca. 29% of total sales), the EBIT margin increased sharply in the first half from 8.6% last year to now 11.2%. This was largely due to a shift in the sales mix in favour of higher margin product groups.
- The considerable decline in the tax rate to ca. 16% was evident in the disproportionate increase in net profit (+53.1%). In our estimation, this is due to deferred taxes and particularly the exceptionally strong short-term earnings con-

tribution from foreign subsidiaries (primarily the low-tax regions in China). We believe this is a temporary effect and that taxation will normalise at a higher level in future (sustained 25%).

## Outlook

- We anticipate that the improvement will continue in the fiscal year 2007 and 2008. Our assumption is supported by the strong order backlog (€151 m), which will probably ensure good capacity utilisation and a better margin due to economies of scale. However, we expect order intake to stabilise at a high level, albeit lower than the record level currently (LBBW 2007e: range €240-250m).
- The driving force will probably be the positive medium-term economic growth prospects for Germany and those foreign markets relevant to Schaltbau (primarily Europe and China).
- The apparent unwinding in the investment backlog in infrastructure at Deutsche Bahn (e.g. safety systems for level crossings) will provide further momentum. It should be positively stated here that the Schaltbau Group has a broadly diversified customer base and even a substantial contract from DB AG should not lead to a significant dependence on this client (DB AG sales contribution currently ca. 12%).
- Schaltbau has implemented measures (including personnel measures) to optimise the cost structure in the volatile door systems business for buses and trains, where margins are temporarily below the level for the entire group. We anticipate the initial stabilising impact in 2007 and 2008, which will probably develop into a sustained margin improvement from 2009 onwards.
- The acquisition of Bubenzer Group, as of 1 July 2007, was an important and, in our opinion, necessary step in expanding Schaltbau's international activities. The industrial brakes manufacturer (sales ca. €26m and 115 employees) has subsidiaries in the USA and Malaysia, and generates over 80% of its sales from exports. Overall, at group level, the foreign contribution would increase from ca. 41% to approximately 46%.
- In addition to the internationalisation aspect, the acquisition will increase the significance of the industrial business (>24% in 2008e) and, at the same time, reduce dependence on public sector clients - which is characteristic for the railway business.
- As a result of acquiring the Bubenzer Group's product and customer portfolio, which complements that of Schaltbau, its subsidiary Pintsch Bamag will become one of the leading international market participants for crane brakes in the maritime sector (according to the company, the global market leader with a ca. 35% market share). However, in our estimation, the dominant market position will impact earnings in 2008 at the earliest. The initial earnings increase firstly depend on the successful integration of the family-run company (e.g. unified reporting, compensation for the transaction costs).
- The Schaltbau Group will increasingly operate in an attractive market in future. Global growth in maritime trade is estimated at ca. 8-9% in the medium term, whereby it is increasingly evident that port capacities (e.g. construction of loading and unloading systems) will become a bottleneck. With products such as navigation marks and crane brakes, Schaltbau is in a good position to bene-

fit from this market potential.

- Parallel to the acquisition of the Bubenzer Group, the group is simultaneously reorganising Schaltbau GmbH's current US activities. In our view, these are the right strategic measures to boost the US market's lucrative potential, given the fact that after decades of neglecting the railway infrastructure in the USA investments will reach a record level of USD 9.4bn in 2007 alone. Further major investments are already planned for subsequent years.
- The company laid the foundation for organic growth in issuing a convertible bond (volume ca. €8.5m) and created room for manoeuvre with future acquisitions. The financial market's confidence was reflected in the fact that the convertible bond was oversubscribed by several times.
- Furthermore, it should be noted that the weak equity in the holding (€-6.4m as of 30/6/2007) will be compensated economically by the near-equity form of the profit-sharing rights (€7.0m) and these give the balance sheet a solid structure. We anticipate that, if the favourable operating performance continues, equity will probably be balanced in 2008 at the earliest.

<b>Profit &amp; Loss Account</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>
€m	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
<b>Net sales</b>	<b>203,9</b>	<b>212,7</b>	<b>232,2</b>	<b>248,2</b>	<b>256,0</b>
<i>Change y-o-y</i>	-5,2%	4,3%	9,2%	6,9%	3,1%
Change in finished goods	0,7	3,1	0,0	0,0	0,0
<b>Total performance</b>	<b>204,5</b>	<b>215,8</b>	<b>232,2</b>	<b>248,2</b>	<b>256,0</b>
<i>Change y-o-y</i>	-4,5%	5,5%	7,6%	6,9%	3,1%
Costs of materials	-103,7	-110,3	-118,0	-126,0	-130,0
<b>Gross profit</b>	<b>100,9</b>	<b>105,5</b>	<b>114,2</b>	<b>122,2</b>	<b>126,0</b>
<i>Gross profit margin</i>	49,5%	49,6%	49,2%	49,2%	49,2%
Personal expenses	-70,4	-71,9	-78,0	-83,2	-85,5
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	-18,9	-18,9	-19,6
<b>EBIT</b>	<b>12,1</b>	<b>11,8</b>	<b>13,7</b>	<b>16,4</b>	<b>17,5</b>
<i>EBIT margin</i>	5,9%	5,5%	5,9%	6,6%	6,8%
Financial income	-4,2	-3,2	-3,2	-3,5	-3,0
Extraordinary income	0,0	0,0	0,0	0,0	0,0
Extraordinary expenses	0,0	0,0	-0,5	0,0	0,0
<b>EBT</b>	<b>7,9</b>	<b>8,6</b>	<b>10,0</b>	<b>12,9</b>	<b>14,5</b>
<i>EBT margin</i>	3,9%	4,0%	4,3%	5,2%	5,7%
Income taxes	-2,8	-2,6	-2,4	-3,0	-3,5
<i>Tax rate</i>	36,0%	29,9%	24,0%	23,3%	24,1%
Minority interests	-1,1	-1,1	-1,4	-1,5	-1,4
<b>Net earnings</b>	<b>3,9</b>	<b>5,0</b>	<b>6,2</b>	<b>8,4</b>	<b>9,6</b>
<b>Earnings per share in €</b>	<b>2,34</b>	<b>2,67</b>	<b>3,64</b>	<b>4,52</b>	<b>5,14</b>

<b>balance sheet</b>	<b>2005</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>
€m					
<b>Assets</b>	<b>136,7</b>	<b>140,0</b>	<b>150,2</b>	<b>160,9</b>	<b>169,7</b>
Goodwill	1,8	1,8	6,8	6,8	6,8
Other intangible assets	4,0	4,4	4,4	4,4	4,4
Tangible assets	38,0	37,1	37,2	37,2	37,2
Financial assets	5,0	5,9	6,2	6,6	6,9
Other fixed assets	10,2	10,1	10,1	10,1	10,1
<b>Long-term assets</b>	<b>59,1</b>	<b>59,3</b>	<b>64,8</b>	<b>65,0</b>	<b>65,4</b>
Inventories	39,9	42,3	46,2	49,1	50,4
Trade receivables	27,9	28,3	31,3	33,5	34,6
Other receivables and assets	5,5	5,5	6,3	6,5	6,7
Cash and cash equivalents	4,4	4,6	1,6	6,8	12,7
<b>Short-term assets</b>	<b>77,6</b>	<b>80,7</b>	<b>85,4</b>	<b>95,9</b>	<b>104,3</b>
<b>Equity and liabilities</b>	<b>136,7</b>	<b>140,0</b>	<b>150,2</b>	<b>160,9</b>	<b>169,7</b>
Equity	-18,4	-12,3	-6,6	1,4	10,6
Minority interests	1,3	2,2	4,1	6,1	8,0
Pension provisions	19,5	19,3	19,2	19,1	19,0
Other provisions	21,8	22,3	24,6	26,3	27,1
Financial liabilities	53,3	52,9	48,0	43,0	38,0
Trade payables	16,8	17,3	19,0	20,4	21,0
Other liabilities	42,3	38,3	41,8	44,7	46,1

Cash flow statement €m	2005	2006	2007e	2008e	2009e
<b>Consolidated net profit</b>	<b>5,0</b>	<b>6,0</b>	<b>6,2</b>	<b>8,4</b>	<b>11,0</b>
Depreciation	5,1	5,1	5,8	6,2	6,3
Change in pension provisions	- 0,1	- 0,2	- 0,1	- 0,1	- 0,1
Change in working capital	- 9,9	- 5,9	- 0,2	0,6	0,3
Other changes	9,4	3,8	1,4	0,6	- 0,1
<b>Cash flow from operating activities</b>	<b>9,5</b>	<b>8,8</b>	<b>13,1</b>	<b>15,8</b>	<b>17,4</b>
Capital expenditure	- 5,3	- 4,8	- 11,5	- 6,7	- 6,9
Diposals/divestments	0,0	0,2	0,2	0,2	0,3
Other Changes	- 0,2	- 0,4	0,5	0,6	- 0,2
<b>Cash flow from investing activities</b>	<b>- 5,4</b>	<b>- 5,0</b>	<b>- 10,8</b>	<b>- 5,9</b>	<b>- 6,9</b>
Proceeds from capital increase	5,3	0,0	0,0	0,0	0,0
Dividend payment	0,0	- 0,1	- 0,5	- 0,5	- 0,5
Change in financial liabilities	- 12,0	- 0,4	- 4,9	- 5,0	- 5,0
Other changes	- 1,6	- 3,0	- 0,7	0,7	0,7
<b>Cash flow from financing activities</b>	<b>- 8,3</b>	<b>- 3,5</b>	<b>- 6,1</b>	<b>- 4,7</b>	<b>- 4,8</b>
Other changes	0,1	- 0,1	0,4	0,0	0,0
<b>Change in cash and cash equivalents</b>	<b>- 4,1</b>	<b>0,2</b>	<b>- 3,3</b>	<b>5,2</b>	<b>5,8</b>
Cash and cash equivalents at start of year	8,5	4,4	4,6	1,3	6,5
<b>Cash and cash equivalents at end of year</b>	<b>4,4</b>	<b>4,6</b>	<b>1,3</b>	<b>6,5</b>	<b>12,3</b>

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Percentage of companies within this rating category		
Buy	Hold	Sell
55.3 %	31.8 %	12.9 %

**Rating History**

Date	Rating
11/14/2005	Buy

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