

Buy

Schaltbau

14 November 2005

Price target: €
25.00

Share price: € 20.30
14 Nov. 2005 9:39 h

Last rating:
Initiation of coverage

Last analysis:

-

S&P rating: n.r.

Capital goods

Number of shares:
1.7 m

Market capitalisation:
€ 33.7 m

Index: CDAX

Index weight: 0.002 %

Beta: 1.2

Accounting standard:
IFRS

Calendar:
FY 2005 in April 2006
2005e dividend: -

ISIN DE0007170300

Bloomberg: SLT GY

Reuters: SLTG.DE

Falk Reimann

Economist, CEFA,
Investment analyst
Tel. +49 - (0)7 11 - 1 27 - 35 74
falk.reimann@LBBW.de

Equity Research

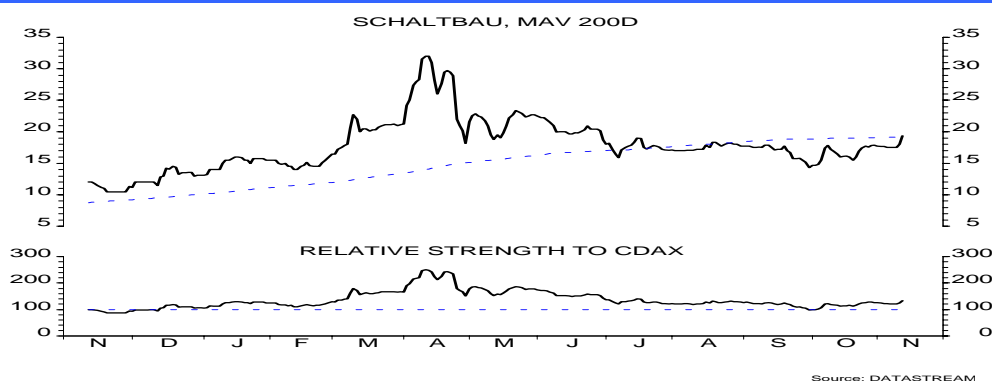
Landesbank Baden-
Württemberg
Am Hauptbahnhof 2
70173 Stuttgart

Restructuring story not yet fully priced in

Schaltbau concluded its turnaround last year. We expect decent earnings increases in the current year as well as the next two years. Despite the Group's negative equity capital we assess the company's capitalisation as sufficient, though not ample. We believe the company's restructuring successes are not yet fully reflected in the share price. We are initiating coverage with a Buy rating in light of the attractive valuation of the company.

Share data	EPS		EV/Sales	EV/EBITDA	PER
	current	previous			
2004 ¹⁾	0,88	-	0,4	6,3	27,1
2005e	2,34	-	0,4	5,1	8,7
2006e	2,53	-	0,4	4,9	8,0
2007e	3,51	-	0,3	3,7	5,8

Company data	Revenues	EBITDA	EBIT	EBT	Net Profit
	€m	€m	€m	€m	€m
2004 ¹⁾	215,0	13,9	8,1	4,0	1,5
2005e	208,1	17,5	11,9	8,2	4,0
2006e	216,5	16,7	10,5	7,9	4,3
2007e	231,6	19,9	13,1	10,7	6,0



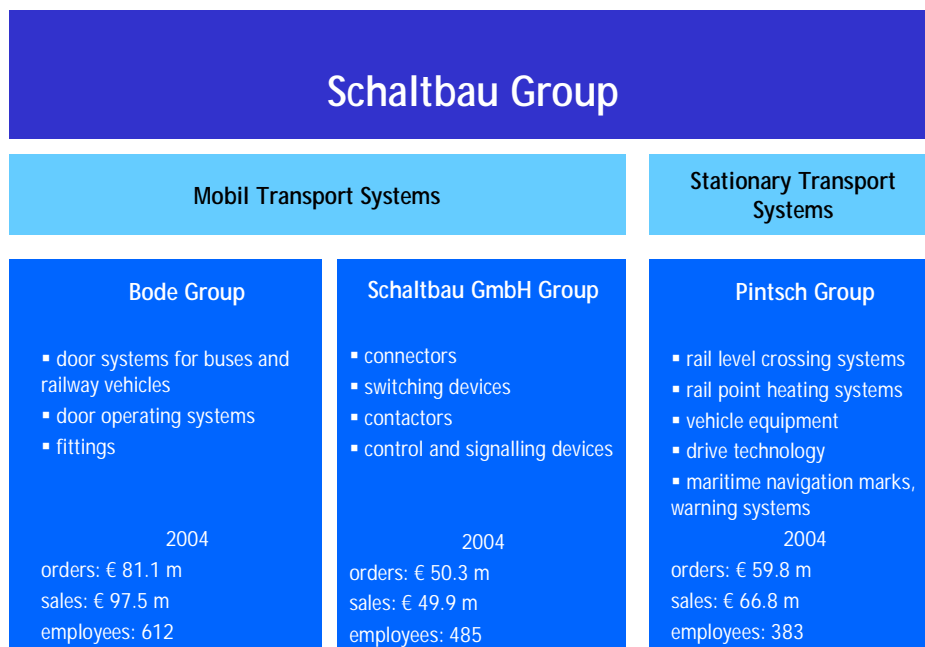
Pros and cons at a glance

- ++ Turnaround successful
- + Strong position in the market
- + Pleasing business in Q3 2005
- + Rise in earnings expected
- + Attractive valuation
- Negative equity capital of the Group
- High dependency on investment spending of railway operators and bus business

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

Company profile

The Schaltbau Group is active in the Mobile Transport Engineering (ca. 69 % of sales in 2004) and Stationary Transport Engineering (39 %) business fields.



source: Schaltbau

Leading market positions...

...in Mobile...

...as well as Stationary Transport Engineering

Railway industry the largest customer

Door control systems for coaches and city buses as well as railway vehicles are important sales drivers in the Mobile Transport Engineering segment. The subsidiary Bode, active in this area of business, is the market leader in the bus segment in Europe according to its own statements as well as the third largest supplier of door control systems in railway vehicles.

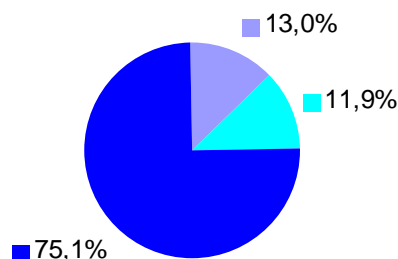
Regarding the products of Schaltbau GmbH, the Group is the leader in control systems and snap-action switches, the number two supplier of connectors and number four in contactors in the relevant market according to its own statements. The Group also holds leading positions with the products of the Pintsch Group. The subsidiary for example supplies Deutsche Bahn with 40% of its necessary level crossing drives.

The company is competing with a number of different competitors depending on the business field. This is a result of its wide range of products in each business field.

The railway industry was the largest customer group on a Group level in 2004 with a 58 % share, followed by the automotive industry with 31 % and the capital goods industry with 11 %. Both German private equity companies Ad Capital and Endeavour sold their share packages in the first half of the current financial year.

Supervisory and Executive Boards together hold nearly 25% of shares

shareholder's structure



■ Dr. Cammann family ■ Zimmermann family ■ free float

Speaker of the Executive Board Dr. Cammann's family and the family of the Chairman of the Supervisory Board Mr. Zimmermann remain the major share holders. The remaining 75 % of shares are in free float.

Valuation

Valuation according to multiples

The peer group for the valuation according to multiples is comprised of MDAX and SDAX companies of our average universe active in the capital goods sector. We have also added Funkwerk due to its sales share of some 40 % within the railroad industry. In our assessment, the railroad supplier Vossloh is the closest comparable.

	Share price	Enterprise Value (€m)	EV/Sales		EV/EBITDA		PER	
	14.11.2005		2005e	2006e	2005e	2006e	2005e	2006e
Funkwerk	25,50 €	248	1,02	0,92	8,3	6,7	17,2	12,4
Gildemeister	6,02 €	573	0,51	0,49	6,4	5,5	16,3	10,0
GEA Group	9,30 €	1 490	0,34	0,32	5,0	4,4	16,3	13,7
Heidelberger Druck ¹⁾	30,20 €	2 758	0,82	0,79	7,9	6,5	23,8	16,8
IWKA	17,09 €	568	0,27	0,26	5,7	4,4	n.m.	13,6
Jungheinrich	19,37 €	622	0,38	0,37	5,1	4,7	12,2	11,1
Krones	79,00 €	758	0,47	0,45	5,1	4,3	12,3	10,6
König & Bauer	24,99 €	482	0,32	0,31	5,5	5,0	15,6	13,5
Rheinmetall	53,81 €	2 587	0,74	0,70	6,7	6,2	15,6	13,2
Vossloh	43,00 €	965	0,80	0,82	6,9	6,1	13,4	10,2
median			0,49	0,47	6,0	5,3	15,6	12,8
mean			0,57	0,54	6,2	5,4	15,9	12,5
Schaltbau	20,30 €	90	0,43	0,38	5,1	4,9	8,7	8,0
difference to median			-12,3%	-18,8%	-14,6%	-6,6%	-44,6%	-37,3%
difference to mean			-23,8%	-30,1%	-17,8%	-8,4%	-45,4%	-35,8%

Schaltbau trading at a valuation discount

¹⁾ fiscal year end March, adapted to fiscal year end December

Schaltbau shares are trading at a considerable valuation discount compared to both the overall peer group and Vossloh. We deem a valuation discount justified due to the relatively narrow market of Schaltbau and the Group's continuously tense balance sheet situation.

Price target of € 25.00 takes the narrow market and the balance sheet situation into account

	target	Enterprise Value (€m)	EV/Sales		EV/EBITDA		PER	
	price		2005e	2006e	2005e	2006e	2005e	2006e
Schaltbau	25,00 €	98	0,43	0,42	5,6	5,4	10,7	9,9
Peer Group								
difference to median			-12,3%	-11,0%	-7,0%	2,5%	-31,8%	-22,8%
difference to mean			-23,8%	-23,3%	-10,4%	0,4%	-32,7%	-21,0%
Vossloh								
median			-46,0%	-49,3%	-18,9%	-11,7%	-20,4%	-2,8%

Source: LBBW

Our price target of € 25.00 considers both valuation discounts compared to the peer group and Vossloh. Based on EV multiples the discount to Vossloh is higher than to the overall peer group, while the opposite holds true as far as the PER is concerned. This is due to Vossloh's higher debt load in the enterprise value compared to the remaining peer group companies. Out of precaution we have not considered the existing tax loss carry-forwards, which had a value of € 5.8 m according to German GAAP (HGB) at the end of 2004.

Recommendation

Schaltbau achieved the turnaround last year. We expect strong profit increases in the current year and the next two years. Despite the Group's negative equity capital, we assess the company's capitalisation as sufficient, though not ample. We believe its restructuring successes are not yet fully reflected in the share price. We are initiating coverage with a Buy rating in light of the company's attractive valuation.

Development in the current financial year

Key data	H1	Q3	H1	Q3		
	2004	2004	2005	2005		
	HGB	HGB	IFRS	IFRS		
Order backlog (million €)	120,1	115,4	104,60	-12,9%	109,60	-5,0%
Order intake (million €)	96,3	50,1	92,9	-3,5%	55,0	9,8%
Sales (million €)	109,8	54,9	101,1	-7,9%	50,0	-8,9%
EBIT (million €)	6,5	3,1	4,7	-27,7%	3,7	19,4%
<i>EBIT margin</i>	<i>5,9%</i>	<i>5,6%</i>	<i>4,6%</i>		<i>7,4%</i>	
Net income (million €)	2,6	1,5	0,9	-65,4%	1,0	-33,3%
<i>Net margin</i>	<i>2,4%</i>	<i>2,7%</i>	<i>0,9%</i>		<i>2,0%</i>	
Earnings per share (€)	2,16	1,25	0,63	-70,8%	0,47	-62,4%

Source: Schaltbau

H1 characterised by difficult environment

H1 2005 proved a difficult environment for Schaltbau. The railway operators noticeably held back on capital expenditures. In addition, orders of door control systems for buses were clearly below the previous year's level. These orders fell

Business brighter in Q3

by 30 % and 15 % in Q1 and Q2 2005, respectively. Both Mobile Transport Engineering business areas Bode and Schaltbau GmbH suffered under these conditions. The Fixtures business field of the Bode Group proved the one exception due to the acquisition of a strategic new customer and a new market introduction. Contrary to the trend in the railway sector, the Stationary Transport Engineering segment increased its order intake as well as sales. Business for the Group was noticeably brighter in Q3 2005. On the one hand, orders of the bus manufacturers have increased since the end of the holiday period, and on the other hand, the company received orders for projects in the railway segment that have been put off until now. In the Mobile Transport Engineering segment, the Bode Group in particular profited from this, while the Schaltbau GmbH companies remained behind the previous year's order intake and sales figures in the first nine months. Stationary Transport Engineering showed a stable trend, as it had already done in H1. The high level of the previous year for order intakes was reached and sales were slightly below the comparable figure of 2004.

EBIT margin in Q3 clearly increased

As a result of the expansion of business, the Group clearly increased its EBIT margin in Q3 2005 to 7.4 % compared to 4.6 % in H1 2005. The net income figure after minority interests of the first six months of 2005 has been exceeded in the current quarter.

Balance sheet

	31.12.2003	31.12.2004	31.12.2004	30.06.2005	30.09.2005
in million €	HGB	HGB	IFRS	IFRS	IFRS
Equity capital Schaltbau AG	5,8	22,9	-	-	-
<i>Equity ratio AG</i>	<i>8,8%</i>	<i>33,8%</i>	-	-	-
Group equity capital	-30,5	-17,2	-26,0	-21,8	-20,5
<i>Group equity ratio</i>	<i>-20,4%</i>	<i>-13,9%</i>	<i>-18,7%</i>	<i>-16,0%</i>	<i>-15,0%</i>
Net financial position	-57,7	-52,2	-62,7	-55,2	-
Group balance sheet total	149,8	123,3	139,1	136,3	136,5

Source: Schaltbau

Negative equity capital on a Group level...

Schaltbau AG is showing negative equity capital on a Group level mainly due to the write-down of investments acquired in the 2002 financial year. The threatening situation, which also existed on the level of Schaltbau AG, has been eased by the conversion of liabilities into profit participation rights of € 12.0 m (€ 2.0 m agio) in 2004. The profit participation rights have a term through 31 Dec 2013. There is no possibility for regular cancellation through the owner of profit participation rights. The profit participation capital is therefore available to the Group through the end of 2013 as a form liable capital.

...though an equity ratio of just under 34% in the AG

In view of the equity ratio of 33.8 % on the level of Schaltbau AG at the end of 2004 and the long-term availability of the participation rights, we assess the company's capitalisation as sufficient though not ample. This holds true despite the negative equity capital on a Group level at first glance.

The reduction in net debt has shown a pleasing continuance in the current financial year and had reached a level of € - 54.8 m by the end of Q3. Final contracts have been signed with creditors for both the remaining credit volume of Schaltbau AG (€ 34 m in December 2004) and the debt of the subsidiaries. How-

Reduction in net debt continued

Participation rights are henceforth classified as liabilities in the Group's balance sheet with the transition to IFRS.

Schaltbau expects earnings per share in the range of € 2.20 to € 2.50 for 2005

ever, a sufficient operating cash flow must be generated in the coming years as well in order to meet the scheduled repayments.

Reconciliation Group Equity Capital		31.12.2004
in million €		
Group equity capital incl. minority interests according to HGB		-17,165
Capitalised development costs		+0,737
Write-up of fixed assets and extension of useful life		+8,104
Additions to fixed assets Special Purpose Entity	+3,298	
Other liabilities Special Purpose Entity	-4,570	
Sum new consolidation Special Purpose Entity		-1,272
Reclassification profit participation capital		-10,000
Provisions for benefits to employees		-4,685
Other adjustments		-1,653
Tax impact of adjustments		-0,102
Group equity capital incl. minority interests according to IFRS		-26,036

Source: Schaltbau

The accounting of profit participation rights in the Group's balance sheet has changed as a result of the accounting transition from German GAAP (HGB) to IFRS in the current financial year. The participation rights under IFRS are shown as long term liabilities in their repayment amount of € 10.0 m. These are no longer shown as a part of equity capital according to HGB. The most important additional negative influence on equity from the accounting transition is the higher value of pension provisions as well as provisions for jubilee payments and partial retirement expenses. Write-ups of fixed assets as well as the extension of useful life have a positive effect on the stated equity capital.

Outlook

The company confirmed the outlook for the year 2005 upon release of Q3 2005 figures. The Group aims to reach EPS in the range of € 2.20 to € 2.50 for the current year. This corresponds to a net income after minority interests of € 3.74 m and € 4.25 m. This forecast appears realistic in light of the improved bus business in Q3. The largest customer MAN also gave a more positive outlook for its bus segment in the interim report for Q3 2005. Based on the order backlog and high utilisation, MAN assumes that it will make up the earnings decline of the first nine months in the FY 2005.

We anticipate 2005 EPS of € 2.34 on the basis of our sales assumption of € 57 m and an EBIT margin of 6.1 % in the current quarter (5.6 % EBIT margin in the first nine months and 7.4 % in Q3 2005).

Order intakes of the German railway industry rose in H1 2005 from a low level

German railway industry	H1	H2	H1	H2	H1
€m	2003	2003	2004	2004	2005
Order intake	4 900	4 000	3 200	3 500	3 400
<i>Change y-o-y</i>	-	-	-34,7%	-12,5%	6,3%
segments					
Rolling stock	3 400	3 130	2 300	2 400	2 500
Infrastructure	1 500	870	900	1 100	900
Geographical structure					
Germany	3 000	2 400	1 600	1 900	1 500
Rest of World	1 900	1 600	1 600	1 600	1 900
Sales	4 400	5 500	4 300	5 600	4 100
Book-to-Bill	1,11	0,73	0,74	0,63	0,83
<i>Change y-o-y</i>	-	-	-2,3%	1,8%	-4,7%
segments					
Rolling stock	3 400	4 260	3 300	4 200	3 100
Infrastructure	1 000	1 240	1 000	1 400	1 000
Geographical structure					
Germany	2 500	3 200	2 400	3 000	2 000
Rest of World	1 900	2 300	1 900	2 600	2 100

Source: Verband der Bahnindustrie in Deutschland

The H1 2005 order intake and sales figures of the Association of the German Railway Industry represent a small ray of hope for Schaltbau's market environment. Although sales have declined compared to the previous year, order intakes began to rise from a low level and were supported by orders from abroad. Our 2006 estimates henceforth incorporate a moderate organic sales growth of 4 %, which is in line with the company guidance. The company expects to compensate for the sales decline in the German railway market thanks to the market launch of new products in the Mobile Transport Engineering business field and the expansion of business at already-existing subsidiaries in Poland and China. The Group anticipates a stable bus economy representing an important factor of business of the Bode subsidiary. As a result of the constant debt reduction, the negative effect of the financial income will likely diminish in 2006. We consequently forecast a rise in EPS to € 2.53 in 2006.

Schaltbau expects a sales impulse in the Stationary Transport Engineering business field for 2007, stemming from the existing programme for bringing all railroad crossings in the former East German states to the same standard of their West German counterparts. Furthermore, the Group's guidance assumes a net income before minority interests of more than € 7 m, which implies a slight recovery of the bus market in 2007. Against this background we expect a rise in sales by 7 % for 2007. We expect 2007 EPS of € 3.51 based on our net income estimate before minority interest.

We expect 2006 EPS of € 2.64 in line with the company guidance

Sales impulse should result in a strong rise in 2007 earnings

Profit & Loss Account	FY	FY	FY	FY
€m	2004	2005e	2006e	2007e
	HGB	IFRS	IFRS	IFRS
Net sales	215,0	208,1	216,5	231,6
<i>Change y-o-y</i>	<i>-5,4%</i>	<i>-3,2%</i>	<i>4,0%</i>	<i>7,0%</i>
Change in finished goods	-0,7	0,0	0,0	0,0
Total performance	214,3	208,1	216,5	231,6
<i>Change y-o-y</i>	<i>-5,2%</i>	<i>-2,9%</i>	<i>4,0%</i>	<i>7,0%</i>
Costs of materials	-110,0	-105,0	-109,5	-116,5
Gross profit	104,2	103,1	107,0	115,1
<i>Gross profit margin</i>	<i>48,5%</i>	<i>49,5%</i>	<i>49,4%</i>	<i>49,7%</i>
Personal expenses	-71,2	-72,0	-74,5	-77,5
Depreciation	-5,6	-5,6	-6,2	-6,8
Other operating income	5,8	5,0	4,5	5,0
Other operating expenses	-24,9	-18,3	-20,0	-22,3
Other taxes	-0,2	-0,3	-0,3	-0,4
EBIT	8,1	11,9	10,5	13,1
<i>EBIT margin</i>	<i>3,8%</i>	<i>5,7%</i>	<i>4,8%</i>	<i>5,7%</i>
Financial income	-3,2	-3,0	-2,6	-2,2
Extraordinary income	0,3	0,3	0,4	0,5
Extraordinary expenses	-1,2	-1,0	-0,4	-0,7
EBT	4,0	8,2	7,9	10,7
<i>EBT margin</i>	<i>1,8%</i>	<i>3,9%</i>	<i>3,6%</i>	<i>4,6%</i>
Income taxes	-1,5	-3,1	-2,6	-3,6
<i>Tax rate</i>	<i>38,0%</i>	<i>38,0%</i>	<i>33,0%</i>	<i>34,0%</i>
Minority interests	-1,0	-1,1	-1,0	-1,1
Net earnings	1,5	4,0	4,3	6,0
Net earnings per share in €	0,88	2,34	2,53	3,51

segments	FY	FY	FY	FY
€m	2004	2005e	2006e	2007e
Net sales				
Mobil Transport Systems	147,8	142,5	150,0	158,0
Stationary Transport Systems	66,7	65,1	66,0	73,0
Holding, others, consolidation				
EBIT				
Mobil Transport Systems	3,9	6,4	5,8	7,0
Stationary Transport Systems	6,9	7,8	7,0	8,6
Holding, others, consolidation				
EBIT margin				
Mobil Transport Systems	2,7%	4,5%	3,9%	4,4%
Stationary Transport Systems	10,4%	12,0%	10,6%	11,8%

LBBW is subject to the supervision of the Federal Financial Supervisory Authority (BaFin), Bonn/Frankfurt.

LBBW uses a three-stage, absolute share rating system. The individual ratings are linked to the following expectations:

Buy: The price potential of the share is at least 10%. **Hold:** The price potential of the share is between 0% and 10%. **Sell:** A negative price performance of the share is expected. Ratings relate to a time horizon of up to 6 months.

Distribution of ratings in percent		
Buy	Hold	Sell
44,6%	39,9%	15,5%

This publication is based on generally accessible sources which we are unable to verify, but which we consider to be reliable. However, we are unable to assume any liability for their correctness and completeness. The publication reflects our non-binding view on markets and products at the time of going to press regardless of any holding that the bank may have in such products.

This publication cannot replace individual advice. It serves for information purposes only and does not constitute any offer or invitation to buy or sell. For an update about detailed investment possibilities and for individual advice, please contact your personal investment adviser.

LBBW has taken measures to avoid as far as possible any conflicts of interest in the production and distribution of financial analyses or to treat these appropriately where they exist. This involves in particular:

- The establishment of internal information barriers within the bank to prevent those employees who produce financial analyses accessing information that could give rise to conflicts of interest on the part of LBBW with regard to the issuers concerned.
- The imposition of a prohibition to deal for own account in securities for which-or for the issuers of which-the employees concerned produce financial analyses.
- The ongoing monitoring of compliance with statutory duties by employees in the Compliance Unit.

Please note: Following the integration of former BW-Bank analysts, the responsibility for coverage of certain stocks may have changed. Certain stocks may also have been added to LBBW's coverage universe

We draw attention to the fact that LBBW or a company associated with it have made an agreement on the production of financial analyses relating to the issuer or its financial instruments, and support the company in the market by entering buy or sell orders. Before being published, the financial analysis was submitted to the issuer and changed