



17 December 2008

Institutional Equity Research

Company

Flash

Schaltbau

Rating

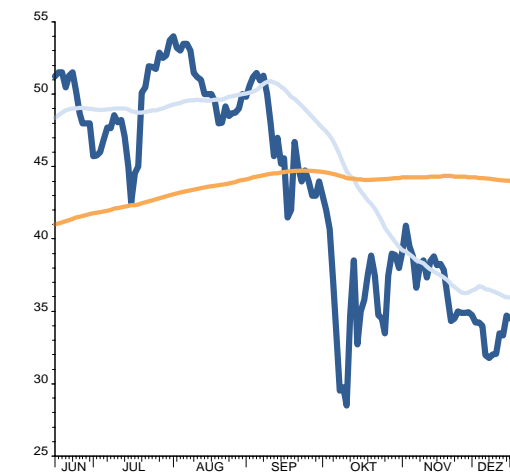
Buy (unchanged)

2008 EPS forecast lifted to € 6.42 (+ 12 %) ▶

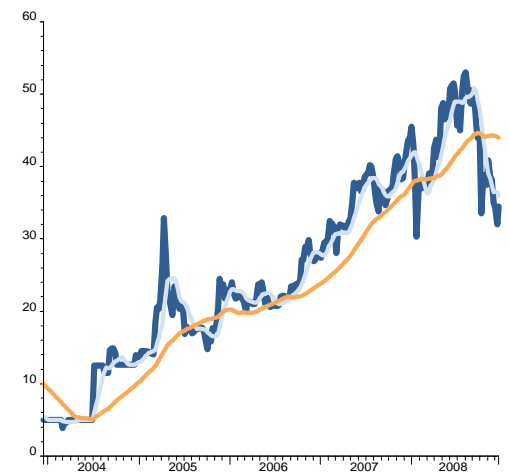
New EPS forecasts for 2009 (€ 6.39; +3.1 %) and 2010 (€ 6.68; +5.3 %)

Activities in the field of railway technology relatively crisis-proof ▶

Buy rating confirmed; new target price at € 45.00 ▶



— 38D Moving Average
— 200D Moving Average
Source: Thomson Datastream



— 38D Moving Average
— 200D Moving Average
Source: Thomson Datastream

For disclaimer and important disclosures please see Appendix-1



Buy

Target price: € 45.00

Price: € 34.89

12/17/08

11:19 h

Last rating/Target price:

Buy /€ 55.00

Last analysis:

08/29/2008

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 66.29 m

Index: CDAX

Index weight: n.a.

Beta: 1.00

Accounting:

IFRS

Calendar:

FY08 on 22.04.2008

2008e dividend:

€ 0.30

2008e div. yield:

0.86 %

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

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Schaltbau

12/17/2008

Topic: Company update

“Like a rock”: Railway technology

Schaltbau should overcome the recession quite easily. The stable business in the field of mobile and stationary railway technology is the main factor here. On the other hand, we believe the company will have to put up with revenue declines in the field of capital goods and the truck industry (combined revenue share of 21 %) in the next year. The relatively non-cyclical rail business, however, has prompted us to leave the rating of the Schaltbau share at Buy given the attractive valuation. We are lowering the target price from € 55.00 to € 45.00.

Share data	EPS		EV/Sales	EV/EBIT	PER
	current €	previous €			
2007	3,85	3,85	0,5	9,0	9,0
2008e	6,42	5,73	0,5	6,3	5,4
2009e	6,39	6,20	0,5	6,3	5,4
2010e	6,68	6,35	0,4	6,1	5,2

Company data	Revenues	EBITDA	EBIT	EBIT margin	Net Profit
	€m	€m	€m	in %	€m
2007	232,1	19,4	14,1	6,1%	7,2
2008e	280,0	25,7	20,0	7,1%	12,0
2009e	280,0	26,0	20,0	7,1%	12,0
2010e	285,1	26,3	20,7	7,3%	12,5

Pros:

- Schaltbau benefits from the intact demand in rail transport and could thus cushion at least some of the economic downturn
- The margins recently got a significant boost in the current year (EBIT margin 9M 2008: 8.6 %)
- Valuation versus the peer group shows some high discounts

Cons:

- Q4 2008 should show very weak margins (LBBWe Q4 2008: 2.8 %)
- Possible conversion of the convertible bond with the corresponding price trend (conversion price: € 46 per share) would lead to dilution

Valuation

Valuation according to multiples

Company	Price 16.12.2008	Currency	EV (m)	EV/Sales				EV/EBITDA				PER			
				2007e	2008e	2009e	2010e	2007e	2008e	2009e	2010e	2007e	2008e	2009e	2010e
Alstom	43,61	EUR	12194	0,8	0,7	0,6	0,6	8,5	6,6	5,7	5,7	14,0	11,7	9,9	9,9
Bombardier	3,48	USD	5793	0,3	0,3	0,3	0,3	4,2	3,0	2,8	2,6	13,9	6,5	5,9	5,4
Faiveley	50,00	EUR	778	1,2	1,0	0,9	0,9	7,8	6,7	6,1	5,6	18,0	14,3	12,1	10,9
Funkwerk	4,01	EUR	49	0,2	0,2	0,2	0,2	1,7	2,1	1,8	1,8	5,0	5,3	4,0	3,0
Vossloh	77,63	EUR	1302	1,1	1,1	1,1	1,0	8,7	7,8	7,9	7,5	16,5	10,8	12,7	11,9
Mean				0,7	0,6	0,6	0,6	6,2	5,2	4,8	4,7	13,5	9,7	8,9	8,2
Median				0,8	0,7	0,6	0,6	7,8	6,6	5,7	5,6	14,0	10,8	9,9	9,9
Schaltbau	34,50	EUR	127	0,5	0,5	0,5	0,4	6,6	4,9	4,9	4,8	9,0	5,4	5,4	5,2
Premium / Discount Peer Group (Median)				-27,2%	-30,7%	-24,1%	-25,0%	-15,9%	-25,3%	-14,6%	-14,3%	-36,1%	-50,3%	-45,3%	-47,9%

Source: LBBW/IBES

- We have compared Schaltbau with companies that also have a significant revenue share in the rail industry (> 40 %). In doing so, we have considered groups such as Alstom and Bombardier and smaller companies such as Faiveley (2007/08 revenues € 693 m), Funkwerk (2007 revenues € 291 m) and Vossloh (2007 revenues € 1.2 bn).
- The Schaltbau share is traded with a discount for all multiples from the median of the peer group based on our estimates. Drawing upon the earnings-based multiples EV/EBITDA and PER for 2009 and 2010, the result is a value of € 40.76 per share.

Discounted cash flow valuation

- We have carried out our DCF valuation by way of a three-phase entity approach. In the first phase from 2008 to 2010, we have given a detailed forecast of the free cash flows. From 2011 to 2017, the free cash flows are determined with the help of value drivers. Phase three starts in 2018 and is based on a terminal value. Here, we assume a terminal growth rate of 0.5 %.
- In detail, we have come to the following assumptions, according to which we have made the following changes to our flash from 29 August 2008.
 1. Risk-free interest reduced from 4.1 % to 3.2 %
 2. Market risk premium lifted from 5.5 % to 6.6 %
 3. Credit spread increased from 2.5 % to 5.0 %

DCF model assumptions

Risk free interest	3,2%
Market risk premium	6,6%
Beta-factor	1,0
Cost of equity	9,8%
Cost of debt	6,2%
Target equity ratio	70,0%
WACC	8,7%
Terminal growth rate	0,5%

Source: LBBW

■ The free cash flow forecasts are as follows.

Free cash flow (€m)	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e
Revenues	280	280	285	291	297	303	309	315	321	327
<i>Growth (yoy)</i>	<i>20,7%</i>	<i>0,0%</i>	<i>1,8%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>
EBIT	20	20	21	20	20	20	20	20	21	21
<i>EBIT margin</i>	<i>7,1%</i>	<i>7,1%</i>	<i>7,3%</i>	<i>7,0%</i>	<i>6,8%</i>	<i>6,7%</i>	<i>6,5%</i>	<i>6,5%</i>	<i>6,5%</i>	<i>6,5%</i>
- Income tax on EBIT	2	2	2	3	4	4	5	5	5	6
<i>Tax rate</i>	<i>11,0%</i>	<i>11,3%</i>	<i>11,6%</i>	<i>15,0%</i>	<i>18,0%</i>	<i>20,0%</i>	<i>23,0%</i>	<i>24,0%</i>	<i>26,0%</i>	<i>27,0%</i>
+ Depreciation & amortization	6	6	6	6	6	6	6	6	6	7
<i>in % of revenues</i>	<i>2,0%</i>	<i>2,1%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>	<i>2,0%</i>
Pension provisions	19	19	19	20	21	21	22	22	22	23
<i>in % of revenues</i>	<i>6,8%</i>	<i>6,8%</i>	<i>6,7%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>	<i>7,0%</i>
+ Change of pension provisions	-0,2	-0,1	0,0	1,4	0,4	0,4	0,4	0,4	0,4	0,4
= Operating cash flow	23	24	24	24	23	23	22	22	22	23
- Capital expenditure	7	7	7	8	8	8	9	9	9	9
<i>in % of revenues</i>	<i>2,5%</i>	<i>2,5%</i>	<i>2,5%</i>	<i>2,8%</i>	<i>2,8%</i>	<i>2,8%</i>	<i>2,8%</i>	<i>2,8%</i>	<i>2,8%</i>	<i>2,8%</i>
Net working capital	28	28	30	31	30	30	31	31	32	33
<i>in % of revenues</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,5%</i>	<i>10,5%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>	<i>10,0%</i>
- Change of net working capital	5	0	2	1	-1	1	1	1	1	1
= Free cash flow	11	17	15	16	15	14	13	13	13	13
Present value	11	15	12	12	11	9	8	7	6	6

Source: LBBW

- The DCF valuation yields a fair value of € 51.21 per share. Based on the current share price of € 34.89, this yields additional share price potential of 46.8 %.

Calculation of fair value per share (€m)

Present value of free cash flow in planned years	98
+ Present value of terminal value	86
= Enterprise value	184
<i>Share of TV on enterprise value</i>	<i>46,6%</i>
- Net financial debt	67
- Pension liabilities	19
- Minority interests	2
= Market capitalization	96
/ Number of shares (m)	1,87
Fair value per share	51,21

Source: LBBW

Valuation summary

- We believe both valuation methods are significant enough to take them into account. They are each weighted with 50 %. The result is a fair value per share of € 45.98. This would equal a share price potential of 31.8 %.

Development in the current business year

Quarterly figures	Q3 2008	Q3 2007	Change
Order entry (€m)	72,4	78,1	-7,3%
Sales (€m)	71,2	58,2	22,3%
EBIT (€m)	5,2	3,2	62,5%
Net profit (€m)	3,2	1,9	68,4%
EPS (€)	1,59	1,01	57,4%

source: Schaltbau

- The order situation still looks positive in our view with a book-to-bill ratio of more than one. Nevertheless, the record figure from the previous year was not entirely reached. While Stationary Transportation Technology showed a stable performance, the Q3 order intake in the Mobile Transportation Technology segment fell by 11.2 %. The weak performance should mainly be attributable to Schaltbau GmbH.
- The revenue increase was the result of both segments. Mobile Transportation Technology generated revenues of € 45.0 m in Q3 (+ 18.4 %) and Stationary Transportation Technology generated € 26.2 m (+ 29.6 %). In the Mobile Transportation Technology segment, most of the success can be traced back to the Bode Group with door systems for buses and railed vehicles. Industry brakes delivered the highest sales growth in the Stationary Transportation Technology segment.
- Operating profit rose by 62.5 % over Q3 2007. As such, the EBIT margin rose from 5.4 % to 7.3 %. There were other reasons for this earnings increase beyond the operating success. On the one hand, Bode was able to optimise its production processes, which contributed to a higher margin in the Mobile Transportation Technology segment. On the other hand, the Bubenzer Group, which was included in the full year for the first time, contributed earnings in the Stationary Transportation Technology segment.

Outlook

	2008e			2009e			2010e		
	new	old	Delta	new	old	Delta	new	old	Delta
Sales (€m)	280,0	266,2	5,2%	280,0	281,3	-0,5%	285,1	288,6	-1,2%
EBIT (€m)	20,0	20,0	0,0%	20,0	21,9	-8,7%	20,7	22,3	-7,2%
<i>EBIT-Margin</i>	<i>7,1%</i>	<i>7,5%</i>		<i>7,1%</i>	<i>7,8%</i>		<i>7,3%</i>	<i>7,7%</i>	
EBT (€m)	15,2	14,9	2,0%	15,2	16,7	-9,0%	15,9	17,1	-7,0%
<i>EBT-Margin</i>	<i>5,4%</i>	<i>5,6%</i>		<i>5,4%</i>	<i>5,9%</i>		<i>5,6%</i>	<i>5,9%</i>	
Net Profit (€m)	12,0	11,0	9,1%	12,0	12,2	-2,0%	12,5	12,5	0,0%
EPS (€)	6,42	5,73	12,0%	6,39	6,20	3,1%	6,68	6,35	5,3%

source: LBBW

Estimates for 2008e

- The good performance concerning the quarter figures and the rise in the annual targets on the part of the company have prompted us to lift our revenue estimates for the current year. We are increasing our revenue expectation by 5.2 % to € 280 m. Schaltbau's target was increased to € 280 m in connection with quarterly reporting. In terms of earnings, we are lowering our EBIT margin expectation from 7.5 % to 7.1 %. A very weak margin is anticipated in Q4 given the precautionary measures that weigh on earnings. Based on the higher revenues, we are leaving our EBIT estimate unchanged at € 20 m after that time. The result is a Q4 revenue level of € 68.7 m and EBIT of just under € 1.9 m

2009e estimates

(EBIT margin 2.8 %). Our net profit forecast rises over-proportionately as a result of a lower tax burden and a lower minority interest. All in all, we are increasing the earnings per share from € 5.73 to € 6.42.

- The order backlog at the end of September came out to € 193.7 m. We expect a figure of ca. € 185 m at year-end. This should be enough to achieve a large part of the revenues targeted for 2009. Schaltbau itself aims to expand its revenue level to € 286 m in 2009. Here, the company believes that the markets for bus doors and the industrial business will tend to decline. On the other hand, the rail business will continue to be stable. Schaltbau generated 8 % of its 2007 revenues in the truck industry (€ 22 m) and 13 % in the capital goods industry (€ 35 m). The remaining 79 % went to projects in railway technology. Following the slump in the automobile industry and the heavily falling demand in the field of investment goods, these two customer groups represent the largest unit sales risks in our view. At the same time, railway technology should continue to yield stable revenues on the basis of the very stable investment behaviour. Market analyses assume that the rail market is growing by ca. 2.0 % to 2.5 % per year on average. For 2009, Schaltbau expects to lift its revenues by ca. 2.3 %, largely due to the stable rail business. We are somewhat more cautious and assume that 2009 revenues will come out to the level of 2008. We are therefore lowering our revenue estimate for 2009 to € 280 m.
- EBIT should also suffer from the deteriorated market conditions. We therefore anticipate an EBIT margin of just 7.1 % instead of 7.8 % (previous). This equals EBIT of € 20.0 m. Based on a lower tax rate (LBBWe previous: 18.6 %, new 14.8 %), earnings per share of € 6.39 result (previous: € 6.20)

2010e estimates

- The situation should continue to ease up in 2010. As such, we still assume revenue growth in the year after next. However, we only estimate a figure of just under 2.0 %, which has led us to drop the revenue estimate by 1.2 % to € 285.1 m.
- The EBIT margin in 2010 should manage to improve again somewhat over 2008 and 2009. With 7.3 %, the result is an EBIT of € 20.7 m, which represents a drop of 7.2 % versus our old estimate. We have reduced the forecast for the tax rate in 2010 (from 18.7 % to 15.1 %). The main result here is then a rise in the earnings per share estimate to € 6.68 (previous: € 6.35).

Profit & Loss Account	FY	FY	FY	FY	FY
€m	2006	2007	2008e	2009e	2010e
Net sales	212,7	232,1	280,0	280,0	285,1
<i>Change y-o-y</i>	<i>4,3%</i>	<i>9,1%</i>	<i>20,7%</i>	<i>0,0%</i>	<i>1,8%</i>
Change in finished goods	3,1	4,1	4,5	3,0	3,0
Total output	215,8	236,1	284,5	283,0	288,1
<i>Change y-o-y</i>	<i>5,5%</i>	<i>9,4%</i>	<i>20,5%</i>	<i>-0,5%</i>	<i>1,8%</i>
Costs of materials	-110,3	-123,5	-152,0	-148,0	-149,8
Gross profit	105,5	112,6	132,5	135,0	138,3
<i>Gross profit margin</i>	<i>49,6%</i>	<i>48,5%</i>	<i>47,3%</i>	<i>48,2%</i>	<i>48,5%</i>
Personnel costs	-71,9	-74,8	-81,0	-82,0	-85,0
Other operating income	2,7	3,2	1,2	1,0	1,0
Other operating expenses	-19,5	-21,7	-27,0	-28,0	-28,0
EBITDA	16,8	19,4	25,7	26,0	26,3
Depreciation	-5,0	-5,3	-5,7	-6,0	-5,6
EBIT	11,8	14,1	20,0	20,0	20,7
<i>EBIT margin</i>	<i>5,5%</i>	<i>6,1%</i>	<i>7,1%</i>	<i>7,1%</i>	<i>7,3%</i>
Financial income	-3,2	-4,1	-4,8	-4,8	-4,8
EBT	8,6	10,0	15,2	15,2	15,9
<i>EBT margin</i>	<i>4,0%</i>	<i>4,3%</i>	<i>5,4%</i>	<i>5,4%</i>	<i>5,6%</i>
Income taxes	-2,6	-1,9	-2,2	-2,3	-2,4
<i>Tax rate</i>	<i>29,9%</i>	<i>18,6%</i>	<i>14,5%</i>	<i>14,8%</i>	<i>15,1%</i>
Minority interests	-1,1	-1,0	-1,0	-1,0	-1,0
Net earnings	5,0	7,2	12,0	12,0	12,5
Earnings per share in €	2,67	3,85	6,42	6,39	6,68

balance sheet €m	2006	2007	2008e	2009e	2010e
Assets	140,0	164,7	183,7	194,5	206,2
Goodwill	1,8	5,2	5,2	5,2	5,2
Other intangible assets	4,4	6,2	6,3	6,4	6,6
Tangible assets	37,1	40,4	41,0	41,7	42,7
Financial assets	5,9	8,4	8,6	8,6	8,6
Other fixed assets	10,1	8,7	13,3	13,3	13,3
Long-term assets	59,3	68,9	74,5	75,2	76,5
Inventories	42,3	46,4	56,0	56,0	57,0
Trade receivables	28,3	33,8	40,3	40,3	41,3
Other receivables and assets	5,5	7,8	8,4	8,4	8,6
Cash and cash equivalents	4,6	7,9	4,5	14,6	22,9
Short-term assets	80,7	95,8	109,2	119,3	129,8
Equity and liabilities	140,0	164,7	183,7	194,5	206,2
Equity	- 12,3	- 4,2	7,3	18,6	30,6
Minority interests	2,2	2,1	3,6	5,1	6,6
Pension provisions	19,3	19,1	19,1	19,0	19,0
Other provisions	22,3	23,2	28,0	28,0	28,5
Financial liabilities	52,9	61,4	60,0	58,0	56,0
Trade payables	17,3	21,7	21,0	21,0	20,0
Other liabilities	38,3	41,4	44,8	44,8	45,6
Cash flow statement €m	2006	2007	2008e	2009e	2010e
Consolidated net profit	6,0	8,2	12,0	13,0	13,5
Depreciation	5,1	5,3	5,7	6,0	5,6
Change in pension provisions	- 0,2	- 0,2	0,0	- 0,1	0,0
Change in working capital	- 5,9	- 3,4	- 9,3	0,0	- 1,9
Other changes	3,8	6,2	- 4,0	- 0,1	- 0,1
Cash flow from operating activities	8,8	16,0	4,4	18,8	17,1
Capital expenditure	- 4,8	- 7,9	- 7,0	- 7,0	- 7,1
Diposals/divestments	0,2	0,1	0,3	0,3	0,3
Other Changes	- 0,4	- 5,2	0,6	- 0,2	- 0,2
Cash flow from investing activities	- 5,0	- 13,0	- 6,1	- 6,9	- 7,0
Proceeds from capital increase	0,0	0,0	0,0	0,0	0,0
Dividend payment	- 0,1	- 0,3	- 0,6	- 0,6	- 0,6
Change in financial liabilities	- 0,4	8,5	- 1,4	- 2,0	- 2,0
Other changes	- 3,0	- 8,1	0,5	0,5	0,5
Cash flow from financing activities	- 3,5	0,1	- 1,5	- 2,1	- 2,1
Other changes	- 0,1	0,2	- 0,2	0,3	0,3
Change in cash and cash equivalents	0,2	3,3	- 3,4	10,1	8,3
Cash and cash equivalents at start of year	4,4	4,6	7,9	4,5	14,6
Cash and cash equivalents at end of year	4,6	7,9	4,5	14,6	22,9

Appendix-1

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Percentage of companies within this rating category		
Buy	Hold	Sell
50,2%	33,2%	16,6%

Rating History

Date	Rating
11/14/2005	Buy