

Buy

Target price: € 35.00

Price: € 27.60

11/27/06

17:30 h

Last rating/Target Pr.:

Buy /€ 35.00

Last analysis:

09/14/2006

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 51.6 m

Index: CDAX

Index weight: n.a.

Beta: 1.20

Accounting:

IFRS

Calendar:

Annual report on

05/08/2007

Dividend 2006e: 0.15

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

Falk Reimann

MSc in Economics, CEFA

Investment analyst

Tel. +49 711 127-73574

falk.reimann@LBBW.de

Equity Research

Landesbank Baden-Württemberg

Am Hauptbahnhof 2

70173 Stuttgart

www.LBBW.de

Schaltbau

11/28/2006

Reason for News Flash: Q3 financials comment

Valuation does not yet fully reflect the Company's strong business performance

Schaltbau reported a good performance in the first half – a trend which continued in the 9M results. As we expected, the Group has raised its guidance for this year. As we see it, however, this guidance is still a conservative one. Next year the Group should benefit from the growth in order receipts and report a surge in earnings. In 2008, too, earnings will probably continue to point upwards. As we see it, the current price level does not fully reflect the favourable prospects as yet.

Share data	EPS		EV/Sales	EV/EBITDA	PER
	current	previous			
2005	2,34	2,34	0,5	5,6	11,8
2006e	2,62	2,62	0,5	6,2	10,5
2007e	3,53	3,53	0,4	5,2	7,8
2008e	4,17	4,17	0,4	4,6	6,6

Company data	Revenues	EBITDA	EBIT	EBT	Net Profit
	€m	€m	€m	€m	€m
2005	203,9	17,1	12,1	7,9	3,9
2006e	211,2	16,4	11,2	7,8	4,9
2007e	227,2	19,5	14,0	10,3	6,6
2008e	236,2	21,7	15,9	12,2	7,8

- Since Schaltbau reported earnings per share totalling as much as € 2.17 after the first nine months of the fiscal year, we expect a figure above management's guidance of € 2.50 to be achieved for the year as a whole.
- The earnings growth that both we and the Company project for 2007 will probably stem from high order receipts this year and from the start-up of the programme to renew railway crossings in Germany's eastern federal states. Schaltbau is expected to benefit from this programme in subsequent years as well.
- Schaltbau is pushing ahead with the opening up of new markets through the formation of another JV in China. This should provide considerable growth potential in the medium and long term on account of the required capital spending on traffic systems.
- Our target price of € 35.00 corresponds to an EV/EBITDA multiple of 5.9 and a PER of 9.9 based on 2007 earnings.

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

Valuation

Multiple-based valuation

- The peer group for the multiple-based valuation consists of the capital goods companies in our coverage that are listed in the MDAX and SDAX. Moreover, we have included Funkwerk in the peer group, as this company generates approx. 40 % of its revenues with the rail industry. As we see it, the closest comparable is railway supplier Vossloh.

	Share price	Enterprise Value (€m)	EV/Sales		EV/EBITDA		PER	
	11/27/2006		2006e	2007e	2006e	2007e	2006e	2007e
Dürr	20,76 €	459	0,33	0,31	8,8	5,6	73,7	14,1
Funkwerk	14,42 €	72	0,29	0,26	3,5	2,7	17,9	13,3
Gildemeister	8,78 €	713	0,58	0,55	6,9	5,9	16,9	11,1
GEA Group	14,78 €	2 543	0,51	0,48	7,0	6,0	18,6	15,3
Heidelberger Druck	32,38 €	2 855	0,76	0,73	5,5	5,2	13,4	12,3
Jungheinrich	23,30 €	359	0,20	0,20	2,4	2,2	11,3	11,0
Krones	98,66 €	954	0,51	0,47	5,8	4,8	14,0	11,1
König & Bauer	26,25 €	513	0,29	0,28	6,0	4,5	16,9	10,5
Rheinmetall	52,15 €	2 508	0,68	0,64	6,7	5,8	15,5	11,7
Vossloh	48,44 €	912	0,88	0,84	9,2	6,6	20,0	12,7
median			0,51	0,47	6,4	5,4	16,9	12,0
mean			0,50	0,48	6,2	4,9	21,8	12,3
Schaltbau	27,60 €	102	0,48	0,45	6,2	5,2	10,5	7,8
difference to median			-5,6%	-5,5%	-2,3%	-3,3%	-37,6%	-34,8%
difference to mean			-4,1%	-5,9%	0,4%	5,9%	-51,8%	-36,5%
difference to Voosloh			-45,5%	-46,5%	-32,8%	-21,1%	-47,4%	-38,6%

Source: LBBW

- Schaltbau is trading at a valuation discount vis-à-vis both the peer group and Vossloh.

	target price	Enterprise Value (€m)	EV/Sales		EV/EBITDA		PER	
			2006e	2007e	2006e	2007e	2006e	2007e
Schaltbau	35,00 €	116	0,55	0,51	7,0	5,9	13,3	9,9
difference to median			7,2%	7,3%	10,9%	9,8%	-20,9%	-17,3%
difference to mean			8,9%	6,9%	14,0%	20,3%	-38,8%	-19,5%
Vossloh								
difference			-38,0%	-39,2%	-23,7%	-10,4%	-33,4%	-22,1%

Source: LBBW

- We reaffirm our target price of € 35.00, which corresponds to an EV/EBITDA multiple of 5.9 and a PER of approx. 9.9 based on 2007 earnings.

Trends in the current business year

Schaltbau €m	9M 2006			9M 2005	
	reported	LBBWe	dif.		y-o-y
order intake	171,7	-	n.m.	147,9	16,1%
net Sales	159,1	158,2	0,6%	151,1	5,3%
net earnings	4,1	3,6	13,9%	1,8	127,8%
EPS	2,17	1,94	11,9%	1,25	73,6%

- The results for the first nine months of 2006 exceeded our expectations. Growth was underpinned by the good performance in the Mobile Transportation Technology division. A substantial contribution to this improvement was made, in particular, by the Bode subsidiary (door systems for buses and railway vehicles), which forms part of this division and generated revenues totalling € 87.2 million, i.e. 64 % of the division's revenues. The second pillar of the Mobile Transportation Technology division, Schaltbau GmbH, also increased its order receipts and revenues in the first three quarters.
- The upbeat performance of the Mobile Transportation Systems division was reined in slightly by the downtrend of order bookings and revenues in the Stationary Transportation Technology division. This division is still affected by the capital spending restraint of its main customer Deutsche Bahn in the areas of signalling and vehicle equipment, which was not offset by the recovery in the traffic technology business (warning and drive technology, maritime navigation aids).
- In its 9M report the Group provided no indication of the earnings performance by division. We expect, however, that the situation has not changed considerably since the H1 figures. Although the Stationary Transportation Technology division is probably still the main earnings driver, the Mobile Transportation Technology division was probably not the only area to report earnings growth.
- The net amount due to banks came to € 48.8 million at the end of Q3, equivalent to a slight improvement over the H1 2006 figure of € 49.9 million. Owing to the build-up of working capital of € 9.6 million, the net amount due to banks increased in the first nine months of 2006 when compared with the level of € 44.3 million recorded at the start of the fiscal. Thanks to positive consolidated earnings, the negative equity figure at group level declined to € -12.8 million. At the beginning of 2005 it stood at € -17.1 million. The negative consolidated shareholders' equity is attributable to writedowns on past equity holdings.
- Further proof of the Group's improved financing capacity as a result of the good business performance was the fact that Schaltbau has offered to buy back all outstanding 500,000 profit participation rights with a nominal value of € 20.00. 137,270 profit participation rights were bought back at the bid price of € 16.25, equivalent to an outflow of cash totalling € 2.2 million.

Outlook

- As we expected, Schaltbau has raised its guidance for this fiscal. The Group had previously guided to earnings per share of between € 2.40 and € 2.50. After the 9M figures Schaltbau expects earnings per share totalling approx. € 2.50. The guidance of consolidated earnings before minorities in 2006 has been raised from € 5.6 million to € 5.8 million. Based on a *ceteris paribus* assumption, this corresponds to an increase in the guidance of € 0.11 per share. Against this backdrop and given the earnings per share figure of € 2.17 that has been realised after nine months already, we consider management's guidance to be conservative. Although the Q4 2005 EPS figure of € 1.23 is unlikely to be repeated in Q4 of this year, as the final quarter of last year benefited from a number of positive special factors, we think that the earnings figure after nine months bears out our EPS estimate of € 2.62 for 2006 as a whole.
- For 2007 the Group projects a further increase in EBIT to approx. € 13 million and consolidated earnings before minorities in excess of € 7 million. Earnings per share are expected to total between € 3.30 and € 3.50. This essentially corresponds to the earnings guidance provided by management at the analyst conference in May. However, at the time Schaltbau expected to receive initial orders from the programme to renew the railway crossing technology in Germany's eastern federal states in H2 2006. In this business area, which forms part of the Stationary Transportation Technology division, Schaltbau has only two major competitors. We therefore expected a major part of the earnings growth to stem from this programme. Although initial revenue and earnings contributions from the renewal programme will probably be booked in 2007, their volume is likely to be below that originally envisaged. However, the Group will probably be able to fill this gap thanks to the positive trend of order receipts, by means of additional business in the Mobile and Stationary Transportation Technology divisions. Against this backdrop, we reaffirm our earnings per share estimate of € 3.53 for 2007.
- In the following years, too, Schaltbau stands to benefit from the programme to renew the railway crossing technology in the eastern federal states of Germany. Originally, these measures were due to be completed by 2010. Completion will now probably take place about half a year later than planned.
- Given the revenue and earnings contributions that we expected to accrue from the renewal of railway crossing technology and the backlog of capital investment at Deutsche Bahn that is becoming increasingly apparent, we are also optimistic as far as the earnings performance in 2008 is concerned. We therefore reaffirm our EPS forecast of € 4.17 for 2008, which is above management's guidance (increase in earnings per share of 10 % in 2008).
- On top of this, further opportunities will accrue to Schaltbau as a result of its efforts to tap new markets. Primarily, the Group wishes to open up the Polish and Ukrainian markets in Eastern Europe via its existing 20 % minority stake in Polish company RAWAG. The Group is likely to increase its equity holding when a suitable opportunity arises.
- In China, Schaltbau has so far been represented via two joint ventures. In Q3 2006, Schaltbau GmbH (mobile transportation technology) signed another JV (with Schaltbau owning 75 %) for industrial contactors in China. Although no

significant earnings contributions are to be expected from this JV in the short term, this step does, as we see it, show by way of example how Schaltbau is opening up new growth areas following completion of its restructuring. In particular, as we see it the insufficient public urban and long-distance transportation systems in many Asian countries harbour considerable potential for the products of Schaltbau Group. The need for capital spending in the traffic sector is likely to become more pressing than ever over the next few years, as the population in urban conglomerates increases and the environment becomes more polluted as a consequence of individual travel.

Profit & Loss Account	FY	FY	FY	FY	FY
€m	2004	2005	2006e	2007e	2008e
Net sales	215,0	203,9	211,2	227,2	236,2
<i>Change y-o-y</i>	-5,4%	-5,2%	3,6%	7,6%	4,0%
Change in finished goods	-0,7	0,7	0,0	0,0	0,0
Total performance	214,3	204,5	211,2	227,2	236,2
<i>Change y-o-y</i>	-5,2%	-4,5%	3,3%	7,6%	4,0%
Costs of materials	-110,0	-103,7	-106,1	-114,0	-117,5
Gross profit	104,2	100,9	105,1	113,2	118,7
<i>Gross profit margin</i>	<i>48,5%</i>	<i>49,5%</i>	<i>49,8%</i>	<i>49,8%</i>	<i>50,3%</i>
Personal expenses	-71,2	-70,4	-74,5	-78,2	-80,8
Depreciation	-5,6	-5,0	-5,2	-5,5	-5,8
Other operating income	5,8	4,5	4,7	5,0	5,2
Other operating expenses	-24,9	-17,9	-18,9	-20,5	-21,4
Other taxes	-0,2	0,0	0,0	0,0	0,0
EBIT	8,1	12,1	11,2	14,0	15,9
<i>EBIT margin</i>	<i>3,8%</i>	<i>5,9%</i>	<i>5,3%</i>	<i>6,2%</i>	<i>6,7%</i>
Financial income	-3,2	-4,2	-3,4	-3,5	-3,5
Extraordinary income	0,3	0,0	0,4	0,5	0,5
Extraordinary expenses	-1,2	0,0	-0,4	-0,7	-0,7
EBT	4,0	7,9	7,8	10,3	12,2
<i>EBT margin</i>	<i>1,8%</i>	<i>3,9%</i>	<i>3,7%</i>	<i>4,5%</i>	<i>5,2%</i>
Income taxes	-1,5	-2,8	-1,8	-2,4	-3,0
<i>Tax rate</i>	<i>38,0%</i>	<i>36,0%</i>	<i>23,1%</i>	<i>23,3%</i>	<i>24,6%</i>
Minority interests	-1,0	-1,1	-1,1	-1,3	-1,4
Net earnings	1,5	3,9	4,9	6,6	7,8
Net earnings per share in €	0,88	2,34	2,62	3,53	4,17

segments	FY	FY	FY	FY	FY
€m	2004	2005	2006e	2007e	2008e
Net sales					
Mobil railway technology	147,8	136,2	147,0	152,0	158,0
Stationary railway technology	66,7	67,5	64,0	75,0	78,0
Holding, others, consolidation	0,4	0,2	0,2	0,2	0,2
EBIT					
Mobil railway technology	3,9	5,4	6,0	7,5	8,5
Stationary railway technology	6,9	9,1	7,8	9,2	10,3
Holding, others, consolidation					
EBIT margin					
Mobil railway technology	2,7%	4,0%	4,1%	4,9%	5,4%
Stationary railway technology	10,4%	13,5%	12,2%	12,3%	13,2%

Please note

This research report is impartial investment research. A copy of our policy on impartial investment research is available on request. Please note that the individuals who prepared this research report may also be involved in the preparation of non-impartial research.

This research report and the information contained therein is furnished and has been prepared solely for information purposes by LBBW. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer or solicitation to buy, hold or sell, or a means by which such securities or related derivatives may be offered or sold.

This research report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this research report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); or (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this research report relates is available only to such persons and will be engaged in only with such persons. Persons who are not relevant persons should not rely on this research report.

The information in this report has been obtained by LBBW from sources reasonably believed to be reliable. LBBW can not verify such information, however, and because of the possibility of human or mechanical error by our sources, LBBW or others, no representation is made by LBBW that the information contained in this report is accurate in all material respects, reliable or complete. LBBW does not accept any liability for the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. None of LBBW, its affiliates, directors, officers or employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from any use of this report. The recommendations contained in this report are statements of opinion and not statements of fact. Changes to assumptions, opinions and estimates may be made without notice and may have a material impact on any performance detailed.

Percentage of companies within this rating category		
Buy	Hold	Sell
45.0 %	44.2 %	10.8 %

Rating changes of the last 12 months

Date	Rating
------	--------

Historic information on performance is not indicative of future performance. LBBW may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and LBBW is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. However, where a recommendation in a research report differs from the recommendations in this report, concerns the same security, derivative or issuer and is issued within twelve months of this report, LBBW will indicate clearly and prominently such change and the date of this report in the new report.

Nothing in this report constitutes legal, accounting or tax advice. This report has no regard to the specific investment objectives, financial situation or needs of any specific recipient. Investments in general involve some degree of risk. The investments discussed in this document may not be suitable for all recipients and an investor may not get back the amount originally invested. Recipients should make their own investment decisions based upon their own financial objectives and financial resources. If in doubt, prior to taking any investment decision recipients should contact an investment adviser. Where investment is made in currencies other than the investor's base currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Levels and bases for taxation may change.

This document is intended for the benefit of market counterparties and intermediate customers (as detailed in the UK Financial Service Authority's rules).

Distributed in the UK by LBBW, which is authorised and regulated by the Financial Services Authority.

Please note that LBBW or an associated enterprise of LBBW

- has made an agreement on the production of financial analyses relating to the issuer or its financial instruments