



29 August 2008

Institutional Equity Research

Company

Flash

Schaltbau

Rating

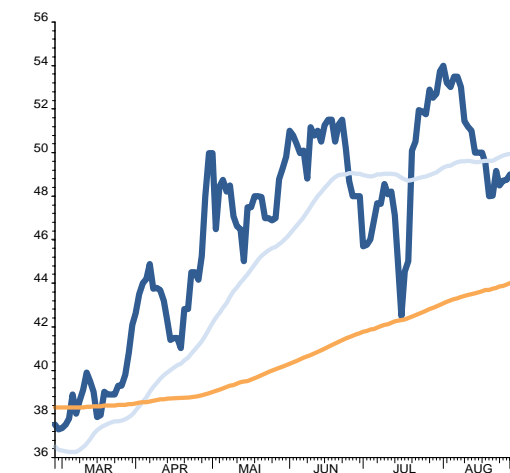
Buy (unchanged)

EBIT margin leaps to 9.8 % in Q2 2008 (Q2 2007: 6.2 %) ▶

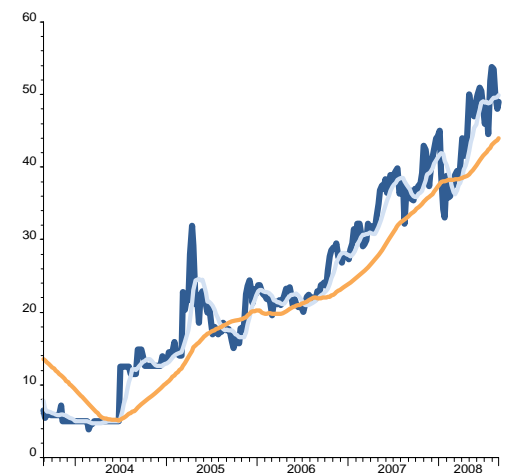
Guidance lifted for 2008 ▶

2008-2010 sales and earnings estimates adjusted upwards ▶

Buy rating reaffirmed with unchanged target price of € 55 ▶



— 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: € 55.00

Price: € 49.12

08/29/08

12:50 h

Last rating/Target Pr.:

Buy /€ 55.00

Last analysis:

05/21/2008

S&P rating: n.a.

Capital Goods

Number of shares:

1.9 m

Market capitalisation:

€ 93.3 m

Index: CDAX

Index weight: n.a.

Beta: 1.00

Accounting:

IFRS

Calendar:

Q3 in 11/07/2008

Dividend 2008e:

0.30 €

Div. Yield 2008e:

0.61 %

ISIN: DE0007170300

Bloomberg: SLT GR

Reuters: SLTG.F

**Alexandra Hauser,
CPA**

MSc in Economics and Business

Administration

Investment analyst

Tel. +49 711 127-74669

Alexandra.Hauser@LBBW.de

Equity Research

Landesbank Baden-
Württemberg
Am Hauptbahnhof 2
70173 Stuttgart

www.LBBW.de

Schaltbau

08/29/2008

Topic: Q2 financial figures

Margin leaps to 9.8 % in Q2

Schaltbau AG's second quarter earnings even surpassed its already very good Q1 figures. The main reason was the significant margin leap in Q2 to 9.8 % (Q1 2008: 8.4 %). We continue to view Schaltbau as one of the beneficiaries of the booming Rail market and also do not expect a notably gloomier market in the coming two years. Due to the takeover of Machine Electrics and the satisfying margin performance, we are adjusting our EPS estimates upwards: 2008 (+17.7%), 2009 (+11.5%) and 2010 (+11.5%). We reaffirm our Buy rating with an unchanged target price of € 55.00.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new €	old €			
2007e	3.85	3.85	0.7	7.9	12.7
2008e	5.73	4.87	0.6	6.0	8.6
2009e	6.20	5.56	0.5	5.5	7.9
2010e	6.35	5.70	0.5	5.4	7.7

Company ratios	Sales m €	EBITDA m €	EBIT m €	EBIT-Margin	Net result m €
2007e	232.1	19.4	14.1	6.1 %	7.2
2008e	266.2	25.8	20.0	7.5 %	11.0
2009e	281.3	28.1	21.9	7.8 %	12.2
2010e	288.6	28.7	22.3	7.7 %	12.5

Pros:

1. Schaltbau benefits from the good market performance of Rail Transport and should therefore be able to partially decouple itself from the economic slump.
2. The earnings situation improved considerably in the first half-year.
3. Ongoing, significant discounts to peer group, which we feel are unjustifiably high.

Cons:

1. Exchange of convertible bonds leads to slight dilution.
2. Margin downswing expected in second half-year (LBBWe: 5.7 %).

Valuation

Valuation according to multiples

Company	Price (05/20/08)	Currency	EV (m)	EV/Sales				EV/EBITDA				PER			
				2007e	2008e	2009e	2010e	2007e	2008e	2009e	2010e	2007e	2008e	2009e	2010e
Vossloh	87,89	EUR	1499	1,2	1,2	1,2	1,1	10,0	8,8	8,3	8,1	18,7	13,2	13,7	13,0
Bombardier	7,51	USD	11569	0,8	0,7	0,6	0,6	11,2	8,3	6,7	5,9	60,1	34,5	17,8	14,4
Alstom	70,86	EUR	19925	1,2	1,0	0,9	0,9	12,8	10,1	8,4	7,6	23,5	17,7	14,0	12,4
Faiveley	55,19	EUR	844	1,2	1,1	1,0	1,0	8,3	7,2	6,6	6,6	19,0	16,1	14,6	14,6
Funkwerk	9,20	EUR	91	0,3	0,3	0,3	0,3	3,1	3,5	3,0	3,2	11,5	9,8	6,8	7,0
Mean				0,9	0,9	0,8	0,8	9,1	7,6	6,6	6,3	26,6	18,2	13,4	12,3
Median				1,2	1,0	0,9	0,9	10,0	8,3	6,7	6,6	19,0	16,1	14,0	13,0
Schaltbau	49,00	EUR	154	0,7	0,6	0,5	0,5	7,9	6,0	5,5	5,4	12,7	8,6	7,9	7,7
Premium / Discount Peer Group (Median)				-43,7%	-44,0%	-40,8%	-37,8%	-20,3%	-27,7%	-18,2%	-18,8%	-33,1%	-46,9%	-43,7%	-40,6%

Source: LBBW/IBES

- Our peer group comparison is restricted to companies with a significant share of sales in the Rail industry (>40%). This includes large players like Alstom and Bombardier as well as smaller companies such as Faiveley, Funkwerk and Vossloh.
- The Schaltbau shares are currently trading at a considerable discount to both the peer group and the best comparable company, Vossloh. We feel this discount is justifiable, at least in part, as Schaltbau's 8.4 % (2007 EBITDA margin) is the lowest margin in the peer group. Nevertheless, the margin potential for the current year is nearly 10 % in our view. Furthermore, the company is far less capitalised than the others in the peer group, except Funkwerk. Still, we feel such a significant discount is too high for the EV/EBITDA multiple and P/E.

Discounted cash flow valuation

- To calculate the free cash flows, we have used a three-stage model. The detailed forecast period from 2008 to 2010 is based on concrete cash flow plans. In the second stage (2011 to 2017), the free cash flows are determined using value drivers. The terminal value is calculated in the third stage. Here we assume a growth rate of 0.5 %.
- Our model uses the following assumptions. Since the last Flash, we have made adjustments to individual items:
 1. Risk-free interest rate: lifted from 4.0 % to 4.1 %
 2. Market risk premium: raised from 5.1 % to 5.5 %
 As a result, the WACC rises from 7.8 % to 8.2 %.

DCF model assumptions

Risk free interest	4,1%
Market risk premium	5,5%
Beta-factor	1,0
Cost of equity	9,6%
Cost of debt	5,0%
Target equity ratio	70,0%
WACC	8,2%
Terminal growth rate	0,5%

Source: LBBW

■ The plans for free cash flows are shown below:

Free cash flow (€m)	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e
Revenues	266	281	289	296	303	311	319	327	335	343
<i>Growth (yoy)</i>	14,7%	5,7%	2,6%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
EBIT	20	22	22	21	21	21	21	21	22	22
<i>EBIT margin</i>	7,5%	7,8%	7,7%	7,0%	6,8%	6,7%	6,5%	6,5%	6,5%	6,5%
- Income tax on EBIT	4	4	4	4	5	5	5	5	6	6
<i>Tax rate</i>	17,5%	16,4%	16,6%	21,0%	22,0%	23,0%	23,0%	24,0%	26,0%	27,0%
+ Depreciation & amortization	6	6	7	7	8	8	8	8	8	9
<i>in % of revenues</i>	2,2%	2,2%	2,3%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%	2,5%
Pension provisions	19	19	19	21	21	22	22	23	23	24
<i>in % of revenues</i>	7,2%	6,8%	6,6%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
+ Change of pension provisions	-0,2	-0,1	0,0	1,7	0,5	0,5	0,5	0,6	0,6	0,6
= Operating cash flow	22	24	25	25	24	24	24	25	25	25
- Capital expenditure	7	8	8	8	8	9	9	9	9	10
<i>in % of revenues</i>	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%	2,8%
Net working capital	27	27	30	31	30	31	32	33	33	34
<i>in % of revenues</i>	10,1%	9,7%	10,5%	10,5%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
- Change of net working capital	4	0	3	1	-1	1	1	1	1	1
= Free cash flow	11	16	14	16	16	15	15	15	15	15
Present value	11	15	12	13	12	10	9	8	8	7

Source: LBBW

- Based on the DCF method, we derive a fair value per share of € 59.90. Looking at the current share price of € 49.12, this indicates upside potential of 21.9 %. Because of the presently difficult environment for stocks, we are maintaining our target price of € 55.00.

Calculation of fair value per share (€m)

Present value of free cash flow in planned years	103
+ Present value of terminal value	98
= Enterprise value	201
<i>Share of TV on enterprise value</i>	48,7%
- Net financial debt	67
- Pension liabilities	19
- Minority interests	2
= Market capitalization	112
/ Number of shares (m)	1,87
Fair value per share	59,90

Source: LBBW

Development current business year

- The good performance of the first quarter continued seamlessly into the second. While year-on-year sales rose 34 %, EBIT grew a remarkable 124 %. This propelled the EBIT margin upward from 6.2 % to 9.8 %. On the one hand, the reason for this high margin was the better than average margin contribution from the Bubenzer Group, taken over in 2007. There was also help from the restructuring programmes. For example, the Bode Group contributed again to Group EBIT for the first time in a long while (LBBWe 2008 = € 4.5 m).
- After the extraordinarily strong Q1 (€ 82.5 m), incoming orders normalised to € 69.1 m. We assume a similar level for the coming quarters.
- On 2 July, the Deutsche Börse AG moved the Schaltbau stock from its Entry Standard to the Prime Standard. This should mean greater transparency and attention from shareholders and potential investors.
- To strengthen its international operations (especially in the UK), the British electrical component manufacturer Machine Electrics Ltd. was acquired on 30 July 2008. The company will be consolidated as of 30 September 2008. With 46 employees, it generated sales of € 5.9 m in the last financial year. Machine Electrics already acted as a distributor in the industrial truck sector for Schaltbau GmbH. We are planning for pro rata sales of € 1.5 m in 2008. Due to integration costs, the company is not likely to contribute to EBIT.

Outlook

- Because of the strong first quarter and the ongoing, positive trend in Q2, the management of the Schaltbau Group has already lifted the outlook for the current year in June. The sales guidance was raised to € 263 m (previously: € 255 m), with an EBIT of € 17.7 m (previously: € 15.5 m). The EPS guidance was boosted considerably from € 4.50 - € 4.70 to € 5.50 - € 5.70.
- Nevertheless, we feel the present guidance is too pessimistic for two reasons. For one, it does not include any sales contribution from Machine Electrics in the current year. For another, we see no reason why the margin in the first half-year (9.2 %) should shrink to 6.7 % for the full year. Although the second half-year is likely to come out weaker due to the different product mix, a margin of only almost 4 % is not to be expected in our view. Accordingly, our estimates for the current year lie above the company's guidance. We expect sales of € 266.2 m and an EBIT of € 20.0 m (EBIT margin: 7.5 %). For earnings per share, we anticipate € 5.73.

Profit & Loss Account	FY	FY	FY	FY	FY
€m	2006	2007	2008e	2009e	2010e
Net sales	212,7	232,1	266,2	281,3	288,6
<i>Change y-o-y</i>	<i>4,3%</i>	<i>9,1%</i>	<i>14,7%</i>	<i>5,7%</i>	<i>2,6%</i>
Change in finished goods	3,1	4,1	0,0	0,0	0,0
Total output	215,8	236,1	266,2	281,3	288,6
<i>Change y-o-y</i>	<i>5,5%</i>	<i>9,4%</i>	<i>12,7%</i>	<i>5,7%</i>	<i>2,6%</i>
Costs of materials	-110,3	-123,5	-139,0	-146,6	-149,8
Gross profit	105,5	112,6	127,2	134,7	138,8
<i>Gross profit margin</i>	<i>49,6%</i>	<i>48,5%</i>	<i>47,8%</i>	<i>47,9%</i>	<i>48,1%</i>
Personnel costs	-71,9	-74,8	-78,7	-82,5	-84,9
Other operating income	2,7	3,2	2,2	2,0	2,0
Other operating expenses	-19,5	-21,7	-24,9	-26,1	-27,2
EBITDA	16,8	19,4	25,8	28,1	28,7
Depreciation	-5,0	-5,3	-5,8	-6,2	-6,4
EBIT	11,8	14,1	20,0	21,9	22,3
<i>EBIT margin</i>	<i>5,5%</i>	<i>6,1%</i>	<i>7,5%</i>	<i>7,8%</i>	<i>7,7%</i>
Financial income	-3,2	-4,1	-5,1	-5,2	-5,2
EBT	8,6	10,0	14,9	16,7	17,1
<i>EBT margin</i>	<i>4,0%</i>	<i>4,3%</i>	<i>5,6%</i>	<i>5,9%</i>	<i>5,9%</i>
Income taxes	-2,6	-1,9	-2,6	-3,1	-3,2
<i>Tax rate</i>	<i>29,9%</i>	<i>18,6%</i>	<i>17,4%</i>	<i>18,6%</i>	<i>18,7%</i>
Minority interests	-1,1	-1,0	-1,3	-1,4	-1,4
Net earnings	5,0	7,2	11,0	12,2	12,5
Earnings per share in €	2,67	3,85	5,73	6,20	6,35

balance sheet €m	2006	2007	2008e	2009e	2010e
Assets	140,0	164,7	180,5	197,1	211,4
Goodwill	1,8	5,2	5,2	5,2	5,2
Other intangible assets	4,4	6,2	6,3	6,4	6,4
Tangible assets	37,1	40,4	40,7	41,2	41,6
Financial assets	5,9	8,4	8,6	8,6	8,6
Other fixed assets	10,1	8,7	8,7	8,7	8,7
Long-term assets	59,3	68,9	69,5	70,0	70,6
Inventories	42,3	46,4	53,2	56,3	57,7
Trade receivables	28,3	33,8	38,3	39,9	40,4
Other receivables and assets	5,5	7,8	8,0	8,4	8,7
Cash and cash equivalents	4,6	7,9	11,5	22,4	34,1
Short-term assets	80,7	95,8	111,1	127,1	140,9
Equity and liabilities	140,0	164,7	180,5	197,1	211,4
Equity	- 12,3	- 4,2	6,3	17,9	29,8
Minority interests	2,2	2,1	3,9	5,8	7,7
Pension provisions	19,3	19,1	19,1	19,0	19,0
Other provisions	22,3	23,2	26,6	28,1	28,9
Financial liabilities	52,9	61,4	60,0	58,0	56,0
Trade payables	17,3	21,7	22,1	23,3	24,0
Other liabilities	38,3	41,4	42,6	45,0	46,2

Cash flow statement €m	2006	2007	2008e	2009e	2010e
Consolidated net profit	6,0	8,2	11,0	13,6	13,9
Depreciation	5,1	5,3	5,8	6,2	6,4
Change in pension provisions	- 0,2	- 0,2	0,0	- 0,1	0,0
Change in working capital	- 5,9	- 3,4	- 6,6	0,1	0,4
Other changes	3,8	6,2	0,6	- 0,1	- 0,1
Cash flow from operating activities	8,8	16,0	10,8	19,7	20,6
Capital expenditure	- 4,8	- 7,9	- 6,7	- 7,0	- 7,2
Disposals/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	- 5,8	- 7,0	- 7,1
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	0,7	0,7	0,7
Cash flow from financing activities	- 3,5	0,1	- 1,3	- 1,9	- 1,9
Other changes	- 0,1	0,2	- 0,2	0,3	0,3
Change in cash and cash equivalents	0,2	3,3	3,5	11,1	11,8
Cash and cash equivalents at start of year	4,4	4,6	7,9	11,4	22,5
Cash and cash equivalents at end of year	4,6	7,9	11,4	22,5	34,3

Appendix-1

IMPORTANT NOTICE

This research report is prepared by LANDESBANK BADEN-WUERTTEMBERG ("LBBW") and distributed in the United States by LBBW Securities, LLC ("LBBW Securities"). LBBW Securities accepts responsibility for the content of this report. Any US Person receiving this report and wishing to effect any transaction in any security discussed in this report should contact LBBW Securities at +1-212-338-8840.

ANALYST'S CERTIFICATION

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding Schaltbau. No part of analyst compensation was, is or will be, directly or indirectly related to the specific recommendations or views expressed in this research report.

DISCLOSURES

Please Note

Important Disclosures Required by Non-U.S. Regulators

1) 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.

Please Note

This research report and the information contained in this research report must not be distributed or reproduced, in whole or in part, in any form without the prior consent of Landesbank Baden-Württemberg ("LBBW") and LBBW Securities LLC and only in accordance with the applicable laws in the relevant jurisdiction. Persons who gain access to this information must inform themselves about such applicable laws and have to comply with them.

This research report and the information contained therein is furnished and has been prepared solely for information purposes. It is not intended to be an inducement to engage in investment activity. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer, recommendation or solicitation to buy, hold or sell, an invitation to subscribe for or purchase, or a means by which any security may be offered or sold.

LBBW and LBBW Securities LLC do 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. The information in this report has been obtained from sources believed to be reliable. LBBW and LBBW Securities LLC cannot verify such information, however, and because of the possibility of human or mechanical error by the sources, LBBW or others, no representation is made that the information contained in this report is accurate in all material respects or complete. The statements contained herein are statements of our non-binding opinion, not statement of fact or recommendations to buy hold or sell any securities. Changes to assumptions may have a material impact on any

performance detailed. Historic information on performance is not indicative of future performance. LBBW and LBBW Securities LLC 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 and LBBW Securities LLC are under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. This report is intended only for and directed to persons sufficiently expert to understand the risks involved, namely market professionals. This publication does not replace personal consultancy. Prior to taking any investment decision you should contact your independent investment adviser for further and more up-to-date information on specific investment opportunities and for individual investment advice, regarding the appropriateness of investing in any securities or investment strategies discussed in this report.

Any security referred to herein may involve a high degree of risk, which may include principal, interest rate, index, currency, credit, political, liquidity, time value, commodity and market risk and is not suitable for all investors. The securities may experience sudden and large falls in their value causing losses equal to the original investment when that investment is realized. Any transaction entered into is in reliance only upon your judgment as to both financial, suitability and risk criteria. LBBW and LBBW Securities LLC do not hold themselves out to be an advisor in these circumstances, nor does any of their staff have the authority to do so.

UNITED KINGDOM

This document is issued in the United Kingdom by LBBW, London Branch. LBBW is authorised by the Bundesanstalt für Finanzdienstleistungsaufsicht (the "BaFin") and regulated by the Financial Services Authority for the conduct of UK business.

This document and the information contained in it constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 and the rules of the Financial Services Authority (the "FSA"). To the extent that this document is issued in the United Kingdom, it is directed exclusively at persons who are professional clients or eligible counterparties for the purposes of the FSA's Handbook of Rules and Guidance. The products and investment services to which this document relate are only available to the persons referred to above and other persons should not act or rely on it. Moreover, any investment or service to which this document relates is not intended for retail clients and will not be made available to retail clients.

This document is impartial investment research. This document has no regard to the specific investment objectives, financial need or situation or needs of any specific recipient and the investments discussed in this document may not be suitable for all recipients.

LBBW, London Branch has effective organisational and administrative arrangements set up for the prevention and avoidance of conflicts of interest with respect to research recommendations, including information barriers. In accordance with the rules of the Financial Services Authority, a copy of LBBW's investment research and conflict of interest policy is available on request from www.lbbw.de/lbbwde/1000005283-en.html

LBBW Research Rating-Systematics

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.

Percentage of companies within this rating category		
Buy	Hold	Sell
58,4%	31,8%	9,8%

Rating History

Date	Rating
11/14/2005	Buy