

# Company Flash

## Schaltbau

### Company update: 2009 guidance confirmed



RATING  
**BUY** (UNCHANGED)

TARGET PRICE  
**EUR 48** (UNCHANGED)

WHAT'S CHANGED

- EBIT margin drops from 9.8 % (Q2 08) to 7.6 % (Q2 09)
- 2009 operating cash flow estimate reduced
- Earnings forecast for 2009 to 2011 confirmed

**EBIT margins narrowing.** No segment remained unscathed in the second quarter, especially where profitability is concerned. The EBIT margin fell from 9.8 % in the previous year to 7.6 %. The EBIT margins of the segments, however, are still worth taking a look at in our assessment. Mobile Transportation Technology: 4.4 % (Q2 08: 4.9 %), Stationary Transportation Technology: 10.0 % (Q2 08: 13.6 %), Components: 13.2 % (Q2 08: 17.6 %). The components business suffered most from the consolidation of the loss-making subsidiary Machine Electrics Ltd.

**Schaltbau confirms its annual forecast.** After the quarterly report, Schaltbau is sticking to its forecast of generating earnings per share of EUR 6.20 with sales of ca. EUR 280 m. However, there are also a couple more cautious overtones, indicating that a possible sales decline in the single-digit range can be absorbed. We are of the opinion that Schaltbau can reach its goals. We are therefore confirming our earnings estimates for 2009 and the subsequent years and only adjusting our operating cash flow estimate downwards to a figure of EUR 8.7 m for 2009 (previously: EUR 20.7 m).

**Economic stimulus programmes & Co.** One focal point of the economic stimulus programmes initiated around the world is the topic of infrastructure measures, including investments in railway transportation. Schaltbau should benefit from this. However, we see the regular investments in rail traffic as far more important. The growth rates here are expected to average 2.0 % to 2.5 %.

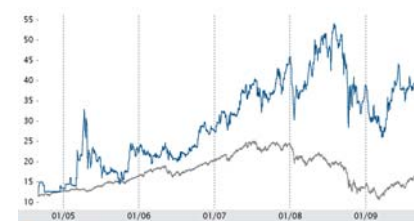
**Rating and price target remain unchanged.** Our valuation shows that the Schaltbau stock still has significant share price potential. As a result, we are confirming the Buy rating with a price target of EUR 48.00.

+++ Reuters: SLTG +++ Bloomberg: SLT GR +++

Current Price (XETRA (Germany); 2009-08-31; 12:21 pm) ... 38.10 EUR  
**CLOSING PRICE (2009-08-28):** ..... 39.23 EUR  
**EXPECTED PERFORMANCE:** ..... 22.4%  
**MARKET CAPITALIZATION:** ..... 73.44 EUR m  
**ENTERPRISE VALUE:** ..... 142.97 EUR m  
**NUMBER OF SHARES:** ..... 1.87 m  
**FREE FLOAT:** ..... 68.0 %  
**INDEX (WEIGHT):** ..... CDAX (n.a.)  
**AVG. DAILY TRADEVOL.:** ..... 2,207  
**ISIN:** ..... DE0007170300  
**SECTOR:** ..... Capital Goods

KEY DATA (DEC)	2008	2009E	2010E
Sales (EUR m)	280.2	280.0	285.5
EBITDA (EUR m)	27.8	25.9	26.1
EBIT (EUR m)	21.9	20.0	20.5
Net profit (EUR m)	11.8	11.6	11.9
FCF (EUR m)	6.7	2.6	7.4
FCF yield	9.3 %	3.5 %	10.1 %
EPS (EUR)	6.35	6.19	6.36
DPS (EUR)	0.50	0.50	0.50
EV / Sales (x)	0.5	0.5	0.5
EV / EBITDA (x)	5.1	5.5	5.5
EV / EBIT (x)	6.5	7.2	7.0
P / E (x)	6.1	6.3	6.2
P / BV (x)	11.65	4.35	2.64
Dividend yield (in %)	1.3 %	1.3 %	1.3 %

PRICE PERFORMANCE



Source: Schaltbau, LBBW Research, Thomson Reuters

UPCOMING EVENTS

November 06-09 Quarterly report

**Alexandra Hauser, CPA**  
 Investment Analyst  
 +49 711 127-74669  
 Alexandra.Hauser@LBBW.de

## Data Overview Financials

## Schaltbau

### Summary estimate changes (EUR m)

P/L statement	2009e			2010e			2011e		
	old	new	Δ	old	new	Δ	old	new	Δ
Sales	280.0	280.0	0.0%	285.5	285.5	0.0%	290.5	290.5	0.0%
EBITDA	25.9	25.9	0.0%	26.1	26.1	0.0%	26.9	26.9	0.0%
EBIT	20.0	20.0	0.0%	20.5	20.5	0.0%	21.1	21.1	0.0%
EBT	15.2	15.2	0.0%	15.7	15.7	0.0%	16.7	16.7	0.0%
Earnings after tax	12.6	12.6	0.0%	12.9	12.9	0.0%	13.7	13.7	0.0%
Net profit	11.6	11.6	0.0%	11.9	11.9	0.0%	12.7	12.7	0.0%
<b>Per share (EUR)</b>	<b>old</b>	<b>new</b>	<b>Δ</b>	<b>old</b>	<b>new</b>	<b>Δ</b>	<b>old</b>	<b>new</b>	<b>Δ</b>
EPS	6.19	6.19	0.0%	6.36	6.36	0.0%	6.80	6.80	0.0%
CEPS	9.35	9.35	0.0%	9.36	9.36	0.0%	9.90	9.90	0.0%
DPS	0.50	0.50	0.0%	0.50	0.50	0.0%	0.50	0.50	0.0%

Source: Schaltbau, LBBW Research

### Key data Schaltbau (EUR m)

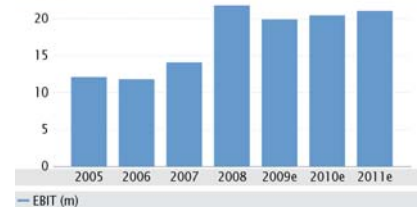
Profit and Loss Statement (EUR m) (Dec)	2005	2006	2007	2008	2009E	2010E	2011E
Sales	203.9	212.7	232.1	280.2	280.0	285.5	290.5
Total operating performance	204.5	215.8	236.1	282.4	283.0	288.5	293.5
EBITDA	17.1	16.8	19.3	27.8	25.9	26.1	26.9
EBIT	12.1	11.8	14.1	21.9	20.0	20.5	21.1
EBT	7.9	8.6	10.0	15.8	15.2	15.7	16.7
Net profit	3.9	5.0	7.2	11.8	11.6	11.9	12.7
EPS	2.34	2.67	3.85	6.35	6.19	6.36	6.80
<b>growth yoy</b>							
Sales		4.3 %	9.1 %	20.7 %	-0.1 %	2.0 %	1.8 %
Total operating performance		n.a.	9.1 %	20.7 %	-0.1 %	2.0 %	1.8 %
EBITDA		-1.5 %	14.9 %	43.7 %	-7.1 %	1.0 %	3.1 %
EBIT		-2.5 %	19.5 %	55.0 %	-8.7 %	2.8 %	3.0 %
EBT		9.4 %	16.6 %	57.5 %	-4.1 %	3.6 %	6.4 %
Net profit		27.4 %	44.4 %	64.5 %	-2.2 %	2.8 %	6.8 %
EPS		14.1 %	44.2 %	64.9 %	-2.5 %	2.7 %	6.9 %
<b>Margins</b>							
EBITDA	8.4 %	7.9 %	8.3 %	9.9 %	9.2 %	9.1 %	9.3 %
EBIT	5.9 %	5.5 %	6.1 %	7.8 %	7.1 %	7.2 %	7.3 %
EBT	3.9 %	4.0 %	4.3 %	5.6 %	5.4 %	5.5 %	5.8 %
Net profit	1.9 %	2.3 %	3.1 %	4.2 %	4.1 %	4.2 %	4.4 %
<b>Balance Sheet (EUR m)</b>							
Goodwill	1.8	1.8	5.2	5.1	5.1	5.1	5.1
Capitalized R & D	1.7	2.6	3.5	4.2	4.9	5.6	6.3
Tangible assets	38.0	37.1	40.4	40.3	39.5	39.9	40.7
Investments in associates	4.8	5.3	6.9	6.5	6.5	6.5	6.5
Net working capital	23.6	21.0	21.5	26.2	36.0	40.0	40.0
Cash / Cash equivalents	4.4	4.6	7.9	5.3	7.1	12.1	20.9
Total financial debt	62.8	59.8	68.4	61.9	61.9	60.4	57.9
Equity	-18.4	-10.1	-2.1	8.6	20.3	32.2	45.0
Minorities	1.3	2.2	2.1	2.4	3.4	4.4	5.4
Net debt / (Net cash) end of FY	58.5	55.2	60.5	56.6	54.8	48.3	37.0
<b>Cash flow Statement (EUR m)</b>							
Net profit	3.9	5.0	7.2	11.8	11.6	11.9	12.7
Depreciation	5.1	5.0	5.3	6.0	5.9	5.6	5.8
Changes to working capital	-9.9	-2.6	-0.4	-4.7	-9.8	-4.0	0.0
Operating cash flow	9.5	8.8	16.1	13.0	8.7	14.5	19.5
Investments in fixed assets	-5.3	-3.7	-5.4	-4.6	-4.5	-5.5	-6.0
FCF	4.2	4.0	8.2	6.7	2.6	7.4	12.1
Dividend payment	0.0	-0.1	-0.3	-1.6	-0.9	-0.9	-0.9
Changes in liquid funds	-4.1	0.3	3.1	-2.6	1.8	5.0	8.8
<b>Valuation Ratios</b>							
EV / Sales	0.5	0.5	0.6	0.5	0.5	0.5	0.5
EV / EBITDA	5.7	6.6	7.5	4.6	5.5	5.5	5.3
EV / EBIT	8.0	9.4	10.3	5.9	7.2	7.0	6.8
P / E	9.5	10.4	11.8	6.1	6.3	6.2	5.8
P / BV	-2.0	-4.2	-20.3	11.7	4.4	2.6	1.9
Return on equity (in %)	-22.7 %	-60.0 %	-387.0 %	151.8 %	62.1 %	40.0 %	30.5 %
Dividend yield (in %)	0.0 %	0.5 %	0.7 %	1.3 %	1.3 %	1.3 %	1.3 %
FCF yield	12.3 %	7.7 %	9.7 %	9.3 %	3.5 %	10.1 %	16.5 %
<b>Financial Ratios</b>							
Net debt to EBITDA	n.a.	3.3	3.1	2.0	2.1	1.9	1.4
Gearing (in %)	-286.4 %	-548.8 %	-2867.1 %	657.5 %	270.8 %	149.9 %	82.3 %
Interest cover (EBIT/Interest expense)	2.7	2.7	2.4	3.3	3.1	3.4	3.7

Source: Schaltbau, LBBW Research

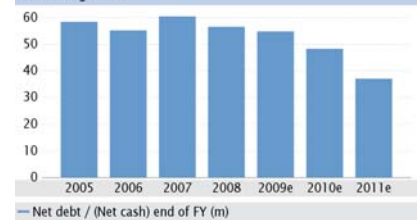
### GUIDANCE - SCHALTBAU

Schaltbau aims to generate volumes of ca. EUR 280 m for each its order intake and sales in 2009. Earnings per share should amount to EUR 6.20.

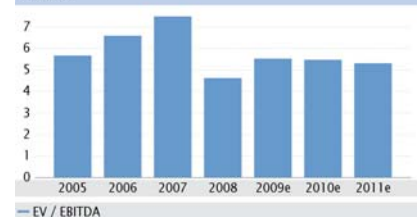
### Key Figures



### Accounting Ratios



### Valuation



Source: Schaltbau, LBBW Research

### RESEARCH TEAM

Alexandra Hauser, CPA, Investment Analyst  
+49 711 127-74669, alexandra.hauser@lbbw.de

Thomas Hofmann, Investment Analyst  
+49 711 127-42775, thomas.hofmann@lbbw.de

Hans-Peter Kuhlmann, Investment Analyst  
+49 711 127-70563, hans-peter.kuhlmann@lbbw.de

Harald Rehmet, Investment Analyst  
+49 711 127-74504, harald.rehmet@lbbw.de

# Investment case

## Summary

### Schaltbau

Schaltbau is well positioned as a supplier of infrastructure projects in railway and bus transportation. Both the Stationary Transportation Technology and Mobile Transportation Technology segments contribute to this. The company is benefiting from its largest customer, Deutsche Bahn AG, as a result of several projects in the field of railway infrastructure. The economic stimulus packages enacted in the course of the economic crisis could provide additional impulse. The weakness of industry customers could be offset by the stable order situation in the field of public transport, thus making a stable level of profitability likely in 2009. Our recommendation for the share remains Buy with a price target of EUR 48.00.

**Earnings summary:** We are leaving our estimates unchanged and anticipate earnings per share of EUR 6.19 for 2009. In 2010 and 2011 we assume EUR 6.36 and EUR 6.80, respectively. The only change that we are making is a more cautious expectation regarding a possible reduction of the working capital at the end of 2009. This particularly yields a decrease in our operating cash flow estimate for the end of 2009 from EUR 20.7 m to EUR 8.7 m.

**Valuation summary:** The valuation of Schaltbau is based in equal parts on a peer group comparison and a DCF valuation. The former indicates a fair value of EUR 52.70 per share, while the latter yields a value of EUR 54.63 per share. Weighting these two figures equally results in a fair value of EUR 53.66 per share. We are somewhat more cautious and are leaving our price target at EUR 48.00.

**Possible catalysts** for a share price increase are trends toward a recovery in the industry business on the one hand. On the other, the start of delayed rail projects could have a correspondingly positive impact on the share price.

**The main risks to our investment case** in our assessment lie in a continuously high working capital at the end of the year combined with a high level of debt. Moreover, we see a risk of the order situation weakening at year-end. It could thus lead to sales declines in 2010.

### Company description

Schaltbau generates annual sales of EUR 280 m with three segments, primarily in Europe. Stationary Transportation Technology (sales share 37 %) is active in the field of infrastructure technology and brake systems. Door systems for buses and railway vehicles are manufactured within the Mobile Transportation Technology segment (39 %). The newly created Components segment (24 %) includes all electro-mechanic components such as connectors, switches and contactors. Schaltbau has a total of 1,609 employees at several production locations.

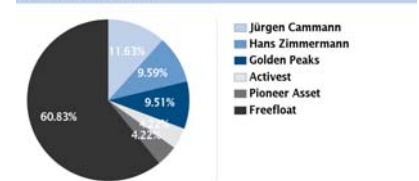
#### PROS

++	High visibility for orders and sales volume
++	Benefits from investments in infrastructure
+	Economic stimulus programmes could provide for additional orders
+	Positive equity since 2008

#### CONS

-	High debt level due to low equity base
-	High dependency of Deutsche Bahn AG as a main customer
-	Weakness in all industrial applications because of recession

#### SHAREHOLDER STRUCTURE



Source: LBBW Research

# Business Update

## Key Topics

## Schaltbau

### Development in the second quarter

EURm	Q2 2009	Q2 2008	Delta yoy in %	H1 2009	H1 2008	Delta yoy in %
Order entry	61,100	69,100	-11,6%	140,400	151,600	-7,4%
Sales	69,935	75,021	-6,8%	142,503	140,138	1,7%
EBIT	5,326	7,339	-27,4%	11,384	12,779	-10,9%
EBIT margin	7,6%	9,8%		8,0%	9,1%	
EBT	4,155	6,362	-34,7%	8,933	10,445	-14,5%
Net profit	3,36	5,26	-36,2%	7,02	8,36	-16,1%
EPS (EUR)	1,80	2,81	-36,1%	3,75	4,47	-16,1%

source: Schaltbau, LBBW Research

Q2 2009 was significantly weaker than in the previous year. While sales up to now only suffered few losses, the operating profit faced far greater setbacks. The declining order intake should also have induced a more cautious outlook.

It is worth considering the segments individually, which were characterised by various influences.

Sales (EURm)	Q2 2009	Q2 2008	Delta yoy in %	H1 2009	H1 2008	Delta yoy in %
Mobile Transportation Technology	26,817	28,063	-4,4%	54,975	51,978	5,8%
Stationary Transportation Technology	25,408	29,084	-12,6%	51,968	53,659	-3,2%
Components	17,692	17,859	-0,9%	35,520	34,458	3,1%
EBIT (EURm)	Q2 2009	Q2 2008	Delta yoy in %	H1 2009	H1 2008	Delta yoy in %
Mobile Transportation Technology	1,179	1,387	-15,0%	2,752	2,018	36,4%
Stationary Transportation Technology	2,544	3,959	-35,7%	5,469	6,854	-20,2%
Components	2,333	3,143	-25,8%	4,983	5,901	-15,6%
EBIT-Margins (%)	Q2 2009	Q2 2008	Delta yoy in %	H1 2009	H1 2008	Delta yoy in %
Mobile Transportation Technology	4,4%	4,9%	-11,0%	5,0%	3,9%	28,9%
Stationary Transportation Technology	10,0%	13,6%	-26,4%	10,5%	12,8%	-17,6%
Components	13,2%	17,6%	-25,1%	14,0%	17,1%	-18,1%

source: Schaltbau, LBBW Research

**Mobile Transportation Technology:** The segment has benefited from the product group of Door Systems for Railway Vehicles, but at the same time suffered from declining business within Door Systems for Buses and Coaches as well as Fittings. Sales fell just below the previous year's quarter overall. The margin dropped slightly below previous year's level in Q2, but this remained the only segment to improve its H1 margin over the previous year.

**Stationary Transportation Technology:** Sales were strained especially by continuing delays in awarding rail projects. In the brakes business, the second quarter was marked by a falling dynamic. In addition, uncertain financing conditions for individual projects and project delays are weighing on the current order situation. The highest profit slumps were seen in this segment. The EBIT margin fell in Q2 from 13.6 % in the previous year to 10.0 %, not least as a result of inventory reduction and higher personnel expenses.

**Components:** The new business field showed weak earnings above all in Q2. The margin fell from 17.6 % in Q2 2008 to 13.2 % in Q2 2009. One reason for this should be the subsidiary Schaltbau Machine Electric, which has been consolidated since August 2008. In addition to significant sales declines, this also resulted in integration costs and thus negative EBIT (Q2 09: EUR -149 m).

**Door Systems for Railway Vehicles performing well**

**Subsidiary Schaltbau Machine Electric proves a burden with a loss**

# Business Update

## Key Topics

## Schaltbau

### The sector at a glance

#### Short-term prospect: Economic stimulus programmes

The economic crisis triggered economic stimulus packages around the globe, almost all of which earmark a significant share of investments in infrastructure projects. The focus here is also on railway transportation, which, in light of rising oil prices, should become more significant in future.

Some of the earmarked investments in the railway network on the important markets are considerable, above all in China. However, even European countries are stepping up their efforts at improving and maintaining their railway networks. Schaltbau could take part on a pro-rata basis in these investments, which go beyond the investment volume already set aside.

Global economic programme infrastructure (selection)			
Country	Sector	Investment volume	Notes
China	Transportation infrastructure	EUR 86.0 bn	Expansion and modernisation of railways
Germany	Infrastructure (economic stimulus package I+II)	EUR 1.3 bn	Transport network, terminals, railway stations, traffic control and supervision system
France	Infrastructure	EUR 1.5 bn	SNCF: Renovation of railways, locomotives; RATP: Purchase of new trains
Italy	Infrastructure	EUR 4.2 bn	Investments in state rail and underground trains
Russia	Infrastructure	EUR 6.0 bn	Investment volume of Russian state trains
USA	Public metropolitan and suburban rail	USD 20.5 bn	Mass passenger transport and intercity rail transport
United Kingdom	Infrastructure	EUR 770 m	In addition to motorways and freeways, purchase of 200 rail cars

Source: Germany Trade&Invest GmbH, German Federal Ministry of Transport, Building and Urban Affairs, LBBW Research

#### Medium-term prospect: CAGR 2.0 % to 2.5 %

The most important market for Schaltbau, railway transportation, should also be marked by positive trends in future. In a study, the organisation unife made the assumption that the size of the global market in 2007 came out to more than EUR 120 bn. Annual growth through 2016 is expected to come out to between 2.0 % and 2.5 %, meaning the global market volume would rise to EUR 154 bn. unife departs from an average annual order volume (2005-07) of EUR 123 bn, whereas only EUR 86 bn should be subject to the free and therefore accessible market. The research company SCI Verkehr GmbH assumes a 2008 market volume of EUR 125 bn.

The region with the largest volumes is still Western Europe at EUR 39 bn (or 32 % of the overall market). However, up-and-coming areas such as the CIS states, Asia and Central and South America are expected to show higher growth rates than average.

Market volume of global rail market		
Regions	Average order intake 2005-07 p.a. EURbn	Share %
Western Europe	39	32%
Eastern Europe	7	6%
CIS	14	11%
NAFTA	24	20%
Rest of America	4	3%
Asia/Pacific	30	24%
Afrika/Middle East	5	4%
<b>Total</b>	<b>123</b>	

source: unife, LBBW Research

# Financials

## Earnings Outlook

Schaltbau

### Company's guidance unchanged

Schaltbau itself still aims to generate a sales and order level of ca. EUR 280 m each. However, the company has also indicated that sales declines in the single-digit percentage range could be compensated by suitable measures. Earnings per share should likewise be unchanged at EUR 6.20.

### Estimates remain unchanged

Following the quarterly report, we are leaving our estimates unaltered. The sales level of EUR 280 m should be conceivable after EUR 142.5 m in the first half year. As for next year, we anticipate a sales increase of nearly 2 % to EUR 285.5 m as well as a 1.8 % improvement to EUR 290.5 m in 2011. In terms of margins, we expect an EBIT margin of 7.1 %. Schaltbau has reached a figure of nearly 8 % after six months. Previous experience, however, causes us to expect weaker margins for Schaltbau's second half year, leading us to plan for an EBIT margin of 6.3 % in the next six months. This should then improve to 7.2 % in 2010 and to 7.3 % in 2011. For 2009, we still assume earnings per share of EUR 6.19, which will then rise to EUR 6.36 in 2010 and to EUR 6.80 in 2011.

### Operating cash flow expected to fall short of previous year's level

Our previous estimate for the operating cash flow in 2009 came out to EUR 20.7 m, based on the assumption of positive working capital development. Based on the first half year, we are more cautious in this regard, thus assuming an operating cash flow of now EUR 8.7 m at year-end (previous year: EUR 13.0 m). Here, we assume the working capital as at year-end based on today's level (LBBWe H1 09: EUR 43.2 m) will be reduced to EUR 36.0 m (LBBWe previous year: EUR 26.2 m). The operating cash flow after six months amounted to EUR -6.5 m (previous year: EUR -8.2 m). The estimates for this figure in 2010 are likewise reduced from EUR 15.7 m to EUR 14.5 m.

### Net financial debt at year-end below the previous year

Net financial debt (incl. capital generated from profit-sharing rights) after six months came out to EUR 67.6 m, requiring an additional EUR 11.1 m compared to the end of 2008 to finance the working capital. In the scope of reducing the working capital, we are assuming net financial debt of EUR 54.8 m as at the end of the year (end of 2008: EUR 56.6 m).

**2009 to 2011 earnings estimates remain unchanged**

**Operating cash flow estimates for 2009 and 2010 lowered**

## Valuation

### Fair value calculations

### Schaltbau

Both the peer group valuation and the DCF model indicate an undervaluation of the share. While the former shows a fair value of EUR 52.70 per share, the latter yields a value of EUR 54.63 per share. We have weighted each method equally, thus coming to a fair value of EUR 53.66 per share. Our price target remains unchanged at EUR 48.00.

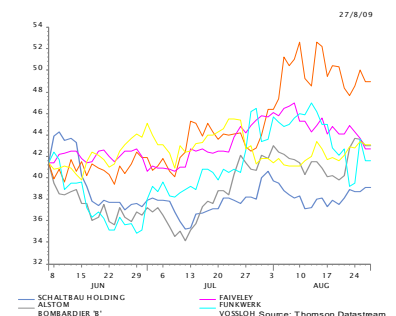
	PRICE ENTERPRISE		EV/SALES			EV/EBITDA			EBITDA-MARGEN			PER		
	30.08.2009	VALUE (m)	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e	2009e	2010e	2011e
Alstom (EUR)	49,78	14122	0,7	0,7	0,8	7,0	7,4	7,8	10,4%	9,9%	9,9%	12,0	12,8	13,9
Bombardier (USD)	3,26	5470	0,3	0,3	0,3	3,4	3,4	2,9	8,5%	8,5%	10,4%	8,2	8,2	6,9
Faiveley (EUR)	54,76	941	1,1	1,0	1,0	7,3	6,4	6,2	15,3%	15,5%	15,5%	11,6	10,3	9,8
Funkwerk (EUR)	6,75	72	0,3	0,3	0,3	4,7	3,2	2,7	5,7%	8,0%	9,3%	n.m.	11,3	7,8
Vossloh (EUR)	83,34	1387	1,1	1,1	1,0	8,2	7,7	7,5	13,8%	13,8%	13,9%	12,9	12,1	11,7
Mean			<b>0,7</b>	<b>0,7</b>	<b>0,7</b>	<b>6,1</b>	<b>5,6</b>	<b>5,4</b>	<b>10,7%</b>	<b>11,2%</b>	<b>11,8%</b>	<b>11,2</b>	<b>10,9</b>	<b>10,0</b>
Median			<b>0,7</b>	<b>0,7</b>	<b>0,8</b>	<b>7,0</b>	<b>6,4</b>	<b>6,2</b>	<b>10,4%</b>	<b>9,9%</b>	<b>10,4%</b>	<b>11,8</b>	<b>11,3</b>	<b>9,8</b>
Schaltbau (EUR)	<b>39,23</b>	<b>143</b>	<b>0,5</b>	<b>0,5</b>	<b>0,5</b>	<b>5,5</b>	<b>5,5</b>	<b>5,3</b>	<b>9,2%</b>	<b>9,1%</b>	<b>9,3%</b>	<b>6,3</b>	<b>6,2</b>	<b>5,8</b>
Premium / Discount Peer Group (Median)			-29,1%	-32,2%	-36,4%	-21,4%	-15,0%	-13,9%				-46,4%	-45,2%	-41,1%

Source: LBBW/IBES

We have compared Schaltbau with companies also focusing on the rail industry. These include groups such as Alstom and Bombardier as well as smaller to medium-sized companies such as Faiveley, Funkwerk and Vossloh.

The share is still traded with a discount compared to the median of the peer group on the basis of our estimates. The earnings-based EV/EBITDA multiples for 2009 to 2011 point to a value of EUR 52.70 per share at present, which is 38.3 % above the current price level.

It is striking that Schaltbau is the only stock within the peer group that has been forced to deal with share price losses since the start of June. All other stocks have managed to show some significant improvements. This has significantly increased the basis of comparison for the peer group (median), above all with the PER. Given the below-average EBITDA margin (2009e average: 10.9 %; 2009e Schaltbau: 9.2 %) and the relatively high debt, we by all means believe a discount of 10 % versus the peer group to be justified. However, the current discounts far exceed this figure. A discount of 10 % on the calculated value per share would equal a figure of EUR 47.43 per share.



## Valuation Fair Value Calculations

## Schaltbau

### DCF model

In the framework of the DCF valuation, we have forecast the free cash flows in three phases. The years 2009 to 2011 are based on our concrete forecasts. In phase two, which spans the years 2012 to 2016, we have determined the free cash flow forecast using value drivers for sales growth, EBIT margin, write-down and investment ratios and the development of net working capital. Our assumption for the sales development from 2012 to 2017 is a constant growth rate of 2.0 %.

Adjustment to DCF model assumptions:

- Risk-free interest rate reduced from 3.7 % to 3.3 %
- Market risk premium increased from 5.5 % to 5.7 %

The result is a reduction of the WACC from 8.4 % to 8.1 %.

#### DCF MODEL - ASSUMPTIONS

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

#### DCF MODEL - STEADY STATE ASSUMPTIONS

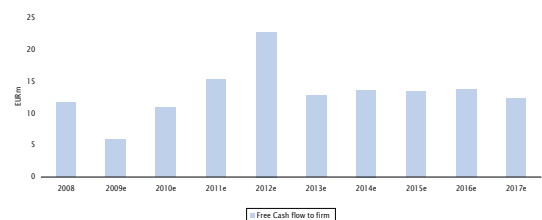
Steady State year	2017e
Terminal growth rate	0,5%
EBIT margin	6,5%
Depreciation in % of sales	2,0%
Capex in % of sales	2,4%
NWC in % of sales	11,0%
CAGR of sales 2008 to 2017	1,7%

FREE CASH FLOW (EURm)	2008	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e
Sales	280	280	286	291	296	302	308	314	321	327
Growth (yoy)	20,7%	-0,1%	2,0%	1,8%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
EBIT	22	20	21	21	21	21	21	20	21	21
EBIT margin	7,8%	7,1%	7,2%	7,3%	7,0%	6,8%	6,7%	6,5%	6,5%	6,5%
- Taxes on EBIT	-4	-4	-4	-4	-4	-5	-5	-5	-5	-5
Tax rate	20,0%	20,0%	20,0%	20,0%	20,0%	25,0%	25,0%	25,0%	25,0%	25,0%
= NOPAT	17	16	16	17	17	15	15	15	16	16
+ Depreciation and Amortization	6	6	6	6	6	6	6	6	6	7
as of sales	2,1%	2,1%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
- CAPEX	-6	-6	-7	-7	-7	-7	-7	-8	-8	-8
as of sales	2,2%	2,2%	2,5%	2,5%	2,5%	2,4%	2,4%	2,4%	2,4%	2,4%
Net Working Capital	26	36	40	40	33	33	34	35	35	36
as of sales	9,4%	12,9%	14,0%	13,8%	11,0%	11,0%	11,0%	11,0%	11,0%	11,0%
- Delta Net Working Capital	-5	-10	-4	0	7	-1	-1	-1	-1	-1
Provisions	5	5	5	5	5	5	5	5	5	3
as of sales	1,8%	1,8%	1,8%	1,8%	1,8%	1,5%	1,5%	1,5%	1,5%	1,0%
+ Delta Provisions	-1	0	0	0	0	-1	0	0	0	-2
= Free Cash flow	12	6	11	15	23	13	14	13	14	12
as of sales	4,2%	2,1%	3,8%	5,3%	7,7%	4,2%	4,4%	4,3%	4,3%	3,8%
Present Value	0	6	10	13	18	9	9	8	8	6

#### Calculation of value per share (EURm)

Present Value Free Cash flow planning years	80
+ Present Value of Terminal Value	92
= Enterprise Value	172
Share of TV of Enterprise Value	53,4%
- Net financial debt	57
- Minorities	2
- Pension provisions	19
+ Peripheral assets	0
- Others	-8
= Market Capitalisation	102
/ numbers of shares (m)	1,9
= Value per share (EUR)	54,63

#### FREE CASHFLOW TO FIRM (EURm)



source: LBBW Research

The DCF valuation yields a value of EUR 54.63 per share. Taking the current share price as a basis, share price potential of 43.4 % would result.

# Appendix

## Financials: Profit and Loss Statement

Schaltbau

PROFIT AND LOSS STATEMENT (EUR m)	2007	2008	2009E	2010E	2011E	CAGR 07-11E
Sales	232.1	280.2	280.0	285.5	290.5	
Growth yoy		20.7 %	-0.1 %	2.0 %	1.8 %	5.78 %
Changes in inventories of finished goods & work in	2.9	1.3	2.0	2.0	2.0	
Work performed by the enterprise and capitalised	1.2	0.9	1.0	1.0	1.0	
<b>Total operating performance</b>	<b>236.1</b>	<b>282.4</b>	<b>283.0</b>	<b>288.5</b>	<b>293.5</b>	
Growth yoy		19.6 %	0.2 %	1.9 %	1.7 %	
Material expenses	-123.5	-150.9	-147.5	-150.4	-152.5	
Personnel expenses	-74.8	-79.4	-82.7	-87.0	-90.1	
Other operating income	3.2	4.2	1.0	1.0	1.0	
Other operating expenses	-21.7	-28.4	-28.0	-26.0	-25.0	
<b>EBITDA</b>	<b>19.3</b>	<b>27.8</b>	<b>25.9</b>	<b>26.1</b>	<b>26.9</b>	
Growth yoy		44.0 %	-6.8 %	0.7 %	3.1 %	8.60 %
Margin	8.3 %	9.9 %	9.2 %	9.1 %	9.3 %	
Depreciation and Amortisation	-5.3	-6.0	-5.9	-5.6	-5.8	
<b>EBIT</b>	<b>14.1</b>	<b>21.9</b>	<b>20.0</b>	<b>20.5</b>	<b>21.1</b>	
Growth yoy		55.0 %	-8.7 %	2.8 %	3.0 %	10.62 %
Margin	6.1 %	7.8 %	7.1 %	7.2 %	7.3 %	
Financial result	-4.1	-6.0	-4.8	-4.8	-4.4	
<b>EBT</b>	<b>10.0</b>	<b>15.8</b>	<b>15.2</b>	<b>15.7</b>	<b>16.7</b>	
Growth yoy		57.5 %	-4.1 %	3.6 %	6.4 %	13.60 %
Margin	4.3 %	5.6 %	5.4 %	5.5 %	5.8 %	
Taxes on income	-1.9	-2.7	-2.6	-2.8	-3.0	
Income Tax rate	18.6 %	17.3 %	17.0 %	17.8 %	18.0 %	
<b>Earnings after tax</b>	<b>8.2</b>	<b>13.1</b>	<b>12.6</b>	<b>12.9</b>	<b>13.7</b>	
Growth yoy		60.1 %	-3.8 %	2.5 %	6.3 %	13.83 %
Margin	3.5 %	4.7 %	4.5 %	4.5 %	4.7 %	
Minorities	-1.0	-1.2	-1.0	-1.0	-1.0	
<b>Net profit</b>	<b>7.2</b>	<b>11.8</b>	<b>11.6</b>	<b>11.9</b>	<b>12.7</b>	
Growth yoy		64.5 %	-2.2 %	2.8 %	6.8 %	15.27 %
Margin	3.1 %	4.2 %	4.1 %	4.2 %	4.4 %	
Average number of shares	1.9	1.9	1.9	1.9	1.9	
<b>Earnings per share</b>	<b>3.85</b>	<b>6.35</b>	<b>6.19</b>	<b>6.36</b>	<b>6.80</b>	
Dividend	0.30	0.50	0.50	0.50	0.50	
<b>Growth yoy</b>		<b>66.7 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>0.0 %</b>	<b>13.62 %</b>

Source: Schaltbau, LBBW Research

# Appendix

## Financials: Balance Sheet

Schaltbau

BALANCE SHEET (EUR m)	2007	2008	2009E	2010E	2011E
<b>Total assets</b>	<b>164.7</b>	<b>168.1</b>	<b>169.7</b>	<b>180.7</b>	<b>191.9</b>
Tangible assets	40.4	40.3	39.5	39.9	40.7
Goodwill	5.2	5.1	5.1	5.1	5.1
Capitalized R & D	3.5	4.2	4.9	5.6	6.3
Other intangible assets	2.7	2.9	3.1	3.4	3.4
Investments in associates	6.9	6.5	6.5	6.5	6.5
Deferred tax assets	8.7	9.0	9.0	9.0	9.0
Financial assets	1.5	1.5	1.5	1.5	1.5
<b>Fixed assets</b>	<b>68.9</b>	<b>69.5</b>	<b>69.6</b>	<b>71.0</b>	<b>72.5</b>
Inventories	46.4	53.3	49.0	54.5	55.0
Trade receivables	33.8	33.2	38.0	36.0	36.5
Current tax assets	0.2	0.0	0.0	0.0	0.0
Other receivables and current assets	7.5	6.7	6.0	7.0	7.0
Cash / Cash equivalents	7.9	5.3	7.1	12.1	20.9
<b>Current assets</b>	<b>95.8</b>	<b>98.6</b>	<b>100.1</b>	<b>109.7</b>	<b>119.4</b>
<b>Total liabilities</b>	<b>164.7</b>	<b>168.1</b>	<b>169.7</b>	<b>180.7</b>	<b>191.9</b>
Share capital	6.8	6.9	6.9	6.9	6.9
Reserves	8.6	8.7	8.7	8.7	8.7
Retained earnings	-22.5	-12.1	-1.4	9.5	21.3
Other equity components	2.9	2.8	2.8	2.8	2.8
Minorities	2.1	2.4	3.4	4.4	5.4
<b>Equity</b>	<b>-2.1</b>	<b>8.6</b>	<b>20.3</b>	<b>32.2</b>	<b>45.0</b>
Financial debt	45.7	41.5	38.5	37.5	36.5
Other liabilities	7.0	7.0	7.0	7.0	7.0
Pension provisions	19.1	19.0	19.0	19.0	19.0
Deferred tax liabilities	6.0	6.3	6.3	6.3	6.3
Other provisions	5.8	5.1	5.1	5.1	5.1
Other non-current liabilities	1.1	0.0	0.0	0.0	0.0
<b>Non-current liabilities</b>	<b>84.8</b>	<b>78.9</b>	<b>75.9</b>	<b>74.9</b>	<b>73.9</b>
Trade payables	21.7	19.8	16.5	18.0	19.0
Short-term borrowings	15.7	13.4	16.4	15.9	14.4
Current tax liabilities	0.1	0.2	0.2	0.2	0.2
Short-term provisions	17.4	19.5	19.5	19.5	19.5
Other current liabilities	27.2	27.7	21.0	20.0	20.0
<b>Current liabilities</b>	<b>82.1</b>	<b>80.6</b>	<b>73.6</b>	<b>73.6</b>	<b>73.1</b>

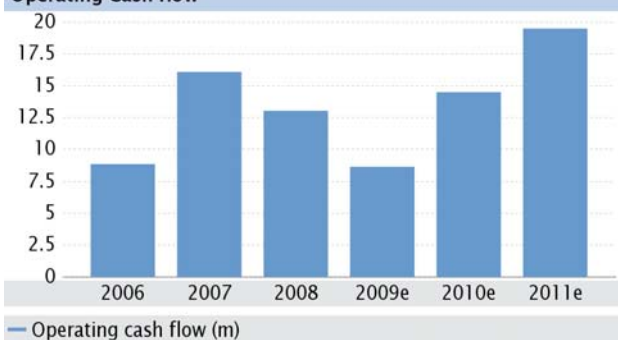
Source: Schaltbau, LBBW Research

## Appendix Financials: Cash flow Statement

## Schaltbau

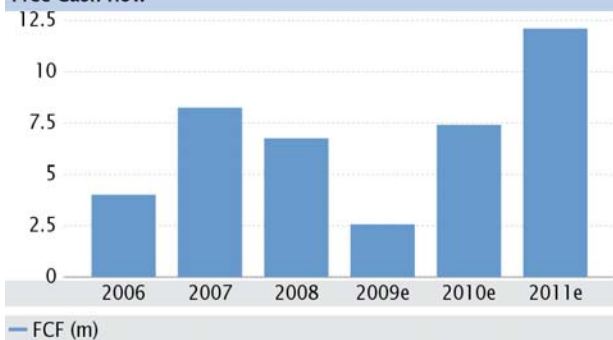
CASH FLOW STATEMENT (EUR m)	2007	2008	2009E	2010E	2011E
Earnings after tax	8.2	13.1	12.6	12.9	13.7
Depreciation	5.3	6.0	5.9	5.6	5.8
Changes in long-term provisions	-2.0	-0.9	0.0	0.0	0.0
Changes to working capital	-0.4	-4.7	-9.8	-4.0	0.0
Other changes operating cashflow	5.1	-0.4	0.0	0.0	0.0
<b>Operating cash flow</b>	<b>16.1</b>	<b>13.0</b>	<b>8.7</b>	<b>14.5</b>	<b>19.5</b>
Growth yoy		-19.0 %	-33.5 %	67.2 %	34.6 %
Cash outflows for investments in tangible and intangible assets	-7.9	-6.3	-6.1	-7.1	-7.4
Cash inflows from disposal of tangible and intangible assets	0.2	0.1	0.1	0.1	0.1
Other changes in investment cash flow	-5.4	-2.1	0.0	0.0	0.0
<b>Cash flow from investments</b>	<b>-13.0</b>	<b>-8.3</b>	<b>-6.0</b>	<b>-7.0</b>	<b>-7.3</b>
Growth yoy		n.m.	n.m.	n.m.	n.m.
Cash outflow / inflow from capital measures	0.0	0.1	0.0	0.0	0.0
Dividend payment	-0.3	-1.6	-0.9	-0.9	-0.9
Changes to financial debt	8.5	-6.4	0.0	-1.5	-2.5
Other changes to financial cash flow	0.3	-1.1	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>0.0</b>	<b>-7.4</b>	<b>-0.9</b>	<b>-2.4</b>	<b>-3.4</b>
Growth yoy		-18126.8 %	n.m.	n.m.	n.m.
Changes in liquid funds	3.1	-2.6	1.8	5.0	8.8
Liquid funds at the beginning of the period	4.6	7.9	5.3	7.1	12.1
Liquid funds at the end of the period	7.9	5.3	7.1	12.1	20.9
<b>Free cash flow</b>	<b>8.2</b>	<b>6.7</b>	<b>2.6</b>	<b>7.4</b>	<b>12.1</b>
<b>Cash earnings per Share</b>	<b>5.69</b>	<b>9.15</b>	<b>9.35</b>	<b>9.36</b>	<b>9.90</b>

Operating Cash flow



Source: Schaltbau, LBBW Research

Free Cash flow



# Appendix-1

1/2

## Important Notice

This research report is prepared by LANDESBANK BADEN-WÜRTTEMBERG ("LBBW") and distributed in the United States by LBBW Securities, LLC ("LBBW Securities"). LBBW Securities, LLC, a broker-dealer registered with the U.S. Securities and Exchange Commission, has assumed responsibility for this research for purposes of U.S. law. All transactions by U.S. persons arising from this research should be effected through LBBW Securities, LLC. 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 the Subject Company. 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.

### Important Disclosures Required by U.S. Regulators

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 can not 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").

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

## EQUITY SALES

### Stuttgart/Mainz

Am Hauptbahnhof 2  
70173 Stuttgart  
Phone +49 711 127-25200  
Fax +49 711 127-25299

### London

London Branch  
201 Bishopsgate  
GB-London EC2M 3UN  
Phone +44 20 7826-8158  
Fax +44 20 7826-8095

### New York

280 Park Avenue  
31st Floor, West Building  
New York 10017 U.S. A.  
Phone +1 212 338-8840  
Fax +1 212 584-1799

## Appendix-1 2/2

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. A copy of LBBW's investment research and conflict of interest policy is available on request from [www.lbbw.de/lbbwde/1000005283-en.html](http://www.lbbw.de/lbbwde/1000005283-en.html)

### LBBW Research Rating-Systematics (absolute share rating system)

Rating definitions:

<b>Buy:</b>	Based on a time horizon of up to 12 months, we recommend that investors buy the stock.
<b>Sell:</b>	Based on a time horizon of up to 12 months, we recommend that investors sell the stock.
<b>Hold:</b>	We take a neutral view on the stock and, based on a time horizon of up to 12 months, do not recommend either a Buy or Sell.
<b>Under review:</b>	The rating is currently updated.
<b>Suspended:</b>	The evaluation of the company is currently not feasible.

Percentage of companies within this rating category

<b>Buy:</b>	33,8%
<b>Sell:</b>	26,6%
<b>Hold:</b>	38,0%
<b>Under review:</b>	0,8%
<b>Suspended:</b>	0,8%

**Notes:** Rating definitions prior to 6th April, 2009 were:

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.

For disclosures pertaining to recommendations or estimates made on securities research, please see the most recently published company report or visit our website at <http://www.lbbw.com/disclosures>

