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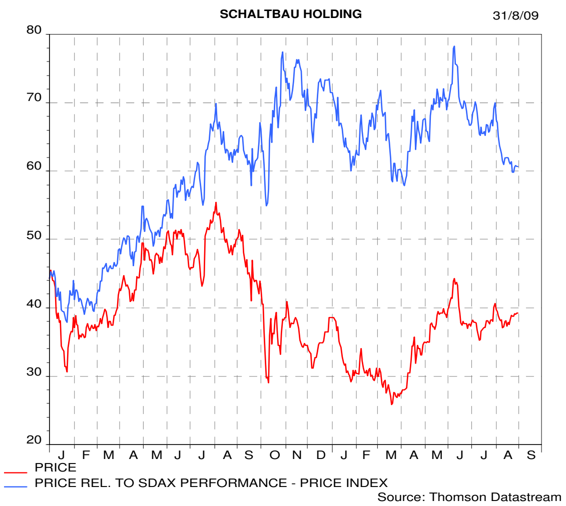
Schaltbau Holding AG

Q2/2009 under record levels of Q2/2008 – Guidance confirmed – Cautious view for 2010

Buy (Buy)

Price Target	**50.00 €**
Price (31.8.2008)	38.10 €
ISIN	DE0007170300
Market capitalization (million €)	71.21
No. of shares (million)	1.87
Website:	www.schaltbau.de

	2008	2009e	2010e	2011e
Sales (m €)	280.2	280	265	285
EBIT (m €)	21.85	21.84	18.55	19.95
EBIT margin	7.80%	7.80%	7.00%	7.00%
EBITDA (m €)	27.82	28.02	24.93	26.54
EBITDA margin	9.90%	10.00%	9.40%	9.30%
Earnings per share (€)	6.34	6.31	5.62	6.29
Dividend per share (€)	0.5	0.5	0.45	0.6
Book val. per share (€)	4.61	10.41	15.59	21.27
PER	6.01	6.04	6.77	6.06
Price/book value	8.27	3.66	2.44	1.79
EV/EBIT	6.72	6.22	6.81	5.9
EV/EBITDA	5.28	4.85	5.07	4.43
EV/sales	0.52	0.48	0.48	0.41
Dividend yield	1.31%	1.31%	1.18%	1.57%



Sales and earnings were off slightly in Q2. Nonetheless a sturdy order backlog gives good support for earnings reaching the previous year's level. Despite stable rail business it is a bit difficult to judge the prospects for 2010; lower earnings appear likely for now.

- For the first time Schaltbau's figures showed signs of difficult economic times: sales and earnings in Q2 were off by 6.8% to 69.9 m € and 28% to 5.3 m € respectively. The relative good rail business could only partially compensate the weakness in the industrial business.
- Based on the good order backlog of 179.7 m € we expect unchanged sales and earnings for full year 2009.
- In light of the weaker orders (Q2/09: 61.1 m €, -11.6%) though as well as continuing weak demand for the important industrial area we have now reduced our estimates for 2010. We now estimate sales and operating earnings will be off 5.4% to 265 m € (prev: 290 m €) and 15% to 18.6 m € (prev: 21.8 m €) respectively.
- The Schaltbau shares are nonetheless priced below our calculated fair value. Even taking into consideration the reduced earnings situation for 2010 this does not justify a PER of 7 as well as an EV/EBIT of 6.8 in our opinion. Our DCF calculation confirms this as well.
- We confirm our buy recommendation and our target price of 50 € for the share.

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Q2/2009: Sales and earning under the record levels of 2008

Due to the difficult economic times Schaltbau was not able to achieve in the second quarter 2009 the record sales and earnings attained in the previous year. Irrespective the reported results are only slightly below Q1 of 2009. The order intake in Q2 was off 11.1% and came in at 61.1 m €.

All three divisions Mobile Traffic Systems, Stationary Traffic Systems as well as Components reported a more normalised earnings development in comparison to Q2 of the previous year and Q1/2009.

Owing to lower finance costs and a tax rate of merely 10%, reported net income (after minorities) was 3.4 m € (-35.9% yoy). The EPS for the quarter amounted to 1.68 € (-33.1% yoy).

Schaltbau Group: Quarterely Figures

	Q1/09	change %	Q2/09	change %	H1/09	change %	H1/09e	change %	2009e	change %	2010e	change %
Order intake	79.3	-3.9	61.1	-11.6	140.4	-7.4						
Sales	72.6	11.5	69.9	-6.8	142.5	1.7	137.5	-1.8	280.0	-0.1	265.0	-5.4
EBIT	6.1	10.9	5.3	-28.1	11.4	-11.3	10.4	16.0	21.8	-0.1	18.6	-15.1
EBIT margin %	*8.4*		*7.6*		*8.0*		*7.6*		*7.8*		*7.0*	
Group net income	4.3	22.9	3.7	-34.3	8.0	-12.5	5.0	28.4	13.0	-0.2	11.6	-10.8
Group net income after minorities	3.7	19.4	3.4	-35.9	7.1	-15.8	4.7	37.6	11.8	-0.4	10.5	-10.8
EPS	1.96	16.7	1.80	-28.3	3.76	-10.3	2.5	18.7	6.3	-0.4	5.6	-10.8

Source: Schaltbau Holding AG, Solventis Research

Order intake declined – High order backlog secures capacity utilisation

The order intake in Q2 was off 11.1% to 61.1 m € in comparison to the record levels achieved in the previous business year. Schaltbau appears to be profiting from differing cycles in the business units. Whereas the orders in the rail infrastructure related businesses increased, the orders for electro-mechanical components declined.

After the first half 2009 the order backlog at Schaltbau is 179 m € (-6.4%). This secures a large part of the capacity utilisation for H2/2009.

Despite difficult economies 2009 results at previous year's level

The good order backlog gives a good indication of the development for the full year 2009. We expect sales and earnings to reach the previous year's level of 280 m € and 21.8 m € respectively. After financing costs and a tax rate of 18% we estimate EPS 6.30 € (-0.5% yoy).

Stable financials – Financial debt lowered

The financial situation of Schaltbau has improved. At the end of June 2009 the shareholder's equity reached a level of 14.4 m € (31.12.08: 8.6 m € or 4.61 € per share). In accordance with our estimates the shareholder's equity ratio will reach a level of 17% in 2010.

Net debt has gone down to 48.8 m € (-6.9% yoy) in the yearly comparison. Since the beginning of 2009 the financial debt has increased by 11.1 m €. This is chiefly due to the temporary increase in working capital (+13.5% to 71.2 m €). We foresee a more normal working capital situation due to a decline in inventories by yearend.

Outlook: lower demand of industrial business can lead to a decline in sales and earnings in 2010

We anticipate a more precise outlook for 2010 during the course of H2/2009. In light of the high but declining level of the order backlog a reduction in sales and earnings for the year is conceivable.

We can imagine lower volumes especially for electromechanical components for various industrial sectors will likely be a cause for the weaker development. Products used for the construction of rail cars and for rail infrastructure on the other hand should have a stable development. World wide economic stimulus programs earmarked for infrastructure projects can give support to the rail business and in a best-case scenario even growth is possible in the related divisions at Schaltbau.

The more difficult situation overall though will have an effect on the series production at Schaltbau and in our opinion also on the return generated. Already planned efforts to adjust the cost structure to the current situation will offer some relief, however, in our opinion, this will not be able to ward off a more difficult margin situation.

An exception to the development just described will be the Chinese JV. The Chinese stimulus program outstanding will offer further good growth for the joint venture there.

All in all we anticipate a slight decline in sales and operating earnings to 265 m € (-5.3%; prev: 290 m €) and 18.5 m € (-13.6%; prev: 21.8 m €) respectively. This implies an Ebit margin decline to 7% from 7.8%.

A continuing stable company development can close the valuation gap

The Schaltbau share has recovered nicely from the lows reached in Q1/2009. Nonetheless when comparing the share to the international peer group as well as in comparison to the fair value we calculate by applying a DCF, the valuation appears quite low.

Valued at a PER of 6.9 as well as an EV/EBIT of 6.9 on the basis of our 2010 estimates it appears as if the expected weakness is already priced in. This is supported with our DCF calculation which indicates a fair value of 50 € per share.

In our opinion a resumption of growth will enable the share to close the valuation gap.

Taking into consideration sustainable profitability of the business model we estimate over the longer term a higher valuation for the company is in the cards. It is possible though the capital markets might take the view of 'wait and see' due to the current restrained prospects. We nonetheless leave our target price of 50 € per share and our buy recommendation unchanged.

Schaltbau Group: Peer Group Comparison

Company	Price 28.08.2009	Currency	PER 2008	PER 2009e	PER 2010e	EV/EBITDA 2009e	EV/EBITDA 2010e	EV/EBIT 2009e	EV/EBIT 2010e	Ebit Margin 2009e	Price/ Book Value 2009e	EV/Sales 2009e
SIEMENS AG	60.83	Euro	31.8	12.6	13.2	7.4	7.7	10.7	11.6	8.0%	1.8	0.9
VOSSLOH AG	83.29	Euro	8.8	12.9	12.1	7.3	6.6	8.9	8.1	11.3%	2.3	1.0
MAN AG	53.73	Euro	6.4	25.8	18.9	11.1	8.8	19.2	14.0	4.2%	1.5	0.8
BOMBARDIER INC	3.69	U.S. Dollar	6.6	9.6	9.3	3.8	4.0	5.5	5.6	5.9%	2.1	0.3
Average (unweighted)			13.4	15.2	13.4	7.4	6.8	11.1	9.8	7.35%	1.9	0.7
MEDIAN			7.7	12.7	12.7	7.3	7.1	9.8	9.8	6.95%	2.0	0.8
SCHALTBAU HOLDING AG	38.10	Euro	6.0	6.0	6.8	4.9	5.1	6.2	6.8	7.80%	3.7	0.5
Deviation to MEDIAN			-21.8%	-52.6%	-46.5%	-33.8%	-29.1%	-36.4%	-30.6%	12.2%	87.1%	-43.7%

Source: Thomson Financial, Solventis Research

Schaltbau Group: P+L

	2008e	yoy	2009e	yoy	2010e	yoy	2011e	yoy
Sales	**280.20**	**20.7%**	**280.00**	**-0.1%**	**265.00**	**-5.4%**	**285.00**	**7.5%**
Unfinished goods	1.28	-55.8%	1.28	-0.1%	1.21	-5.4%	1.30	7.5%
Inventury changes & own work cap.	0.88	-26.4%	0.52	-41.0%	0.52	0.0%	0.52	0.0%
Other operating earnings	4.19	29.6%	4.09	-2.4%	4.15	1.5%	4.50	8.5%
Cost of goods	150.94	22.2%	150.84	-0.1%	142.75	-5.4%	153.53	7.5%
Gross profit	**135.61**	**17.1%**	**135.05**	**-0.4%**	**128.12**	**-5.1%**	**137.79**	**7.5%**
Personnel expenses	79.36	6.1%	79.30	-0.1%	75.05	-5.4%	80.72	7.5%
Depreciation	5.97	13.6%	6.18	3.5%	6.38	3.3%	6.59	3.2%
Other operating expenses	28.43	30.9%	27.73	-2.4%	28.14	1.5%	30.54	8.5%
Ebit (prerestruct. charges)	21.85	55.0%	21.84	-0.1%	18.55	-15.1%	19.95	7.5%
Ebit margin (prerestruct. charges)	7.80%	1.7 pp	7.80%	0.0 pp	7.00%	-0.8 pp	7.00%	0.0 pp
Ebitda	27.82	43.8%	28.02	0.7%	24.93	-11.0%	26.54	6.4%
Ebitda margin	9.93%	1.6 pp	10.01%	0.1 pp	9.41%	-0.6 pp	9.31%	-0.1 pp
Ebit	**21.85**	**55.0%**	**21.84**	**-0.1%**	**18.55**	**-15.1%**	**19.95**	**7.5%**
Ebit margin	**7.80%**	**1.7 pp**	**7.80%**	**0.0 pp**	**7.00%**	**-0.8 pp**	**7.00%**	**0.0 pp**
Earnings minorities	0.33	-78.6%	0.33	0.0%	0.33	0.0%	0.33	0.0%
Interest income	0.21	-15.1%	0.24	11.5%	0.26	8.8%	0.26	0.5%
Interest expense	6.59	12.9%	6.50	-1.3%	4.60	-29.2%	4.29	-6.7%
Financial result	-6.05	48.9%	-5.94	-1.8%	-4.02	-32.4%	-3.71	-7.7%
Earnings before taxes (EBT)	**15.80**	**57.5%**	**15.90**	**0.6%**	**14.53**	**-8.6%**	**16.24**	**11.8%**
EBT margin	5.64%	1.3 pp	5.68%	0.0 pp	5.48%	-0.2 pp	5.70%	0.2 pp
Taxes	2.73	46.2%	2.86	4.8%	2.91	1.5%	3.25	11.8%
Tax rate	17.29%	-1.3 pp	18.00%	0.7 pp	20.00%	2.0 pp	20.00%	0.0 pp
Earnings after taxes (EAT)	**13.07**	**60.1%**	**13.04**	**-0.2%**	**11.63**	**-10.8%**	**12.99**	**11.8%**
Minorities	1.23	27.1%	1.25	1.7%	1.11	-10.8%	1.25	11.8%
Group net Net income	**11.84**	**64.5%**	**11.79**	**-0.4%**	**10.51**	**-10.8%**	**11.75**	**11.8%**
No. of shares on 28/08/2009 (mill.)	1.87	0.0%	1.87	0.0%	1.87	0.0%	1.87	0.0%
Earnings per share (€)	**6.34**	**64.5%**	**6.31**	**-0.4%**	**5.62**	**-10.8%**	**6.29**	**11.8%**

Source: Schaltbau, Solventis Research

Schaltbau Group: Balance Sheet

	2008e	yoy	2009e	yoy	2010e	yoy	2011e	yoy
Assets								
Cash and cash equivalents	5.33	-32.4%	8.40	57.6%	7.95	-5.4%	8.55	7.5%
Accounts receivables	33.24	-1.6%	33.22	-0.1%	31.44	-5.4%	33.81	7.5%
Inventories	53.34	14.9%	53.31	-0.1%	50.45	-5.4%	54.26	7.5%
Other noncurrent assets	6.69	-11.4%	6.69	0.0%	6.69	0.0%	6.69	0.0%
Accruals/Deferrals	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Tax claims	0.04	-81.7%	0.04	0.0%	0.04	0.0%	0.04	0.0%
Total noncurrent assets	**98.64**	**2.9%**	**101.65**	**3.1%**	**96.56**	**-5.0%**	**103.34**	**7.0%**
Fixed assets	40.27	-0.2%	40.09	-0.4%	40.71	1.5%	42.13	3.5%
Intangible assets	12.22	7.1%	12.22	0.0%	12.22	0.0%	12.22	0.0%
Goodwill	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Financial assets	7.99	-4.9%	7.99	0.0%	7.99	0.0%	7.99	0.0%
Deferred Taxes	9.00	3.2%	9.00	0.0%	9.00	0.0%	9.00	0.0%
Other fixed assets	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Total fixed assets	**69.48**	**0.9%**	**69.30**	**-0.3%**	**69.92**	**0.9%**	**71.34**	**2.0%**
Total assets	**168.12**	**2.1%**	**170.95**	**1.7%**	**166.49**	**-2.6%**	**174.68**	**4.9%**
Equity & Liabilities								
Subscribed capital	6.85	0.1%	6.85	0.0%	6.85	0.0%	6.85	0.0%
Capital reserves	8.44	1.3%	8.44	0.0%	8.44	0.0%	8.44	0.0%
Returned earnings	-23.91	-19.2%	-13.05	-45.4%	-3.38	-74.1%	7.25	-314.3%
Accumulated other comprehensive income	14.83	44.8%	14.83	0.0%	14.83	0.0%	14.83	0.0%
Shareholder's equity	**6.21**	**-248.3%**	**17.07**	**174.7%**	**26.74**	**56.7%**	**37.37**	**39.7%**
Minorities	2.40	15.2%	2.40	0.0%	2.40	0.0%	2.40	0.0%
Shareholder's equity with minorities	**8.61**	**-508.0%**	**19.46**	**126.1%**	**29.14**	**49.7%**	**39.76**	**36.5%**
					24.30		34.45	
Long-term debt								
Pension provisions	18.99	-0.8%	18.97	-0.1%	17.96	-5.4%	19.31	7.5%
Other provisions	5.09	-12.4%	5.08	-0.1%	4.81	-5.4%	5.17	7.5%
Financial liabilities	48.52	-7.9%	48.52	0.0%	45.06	-7.1%	35.67	-20.9%
Tax liabilities	6.28	4.2%	6.28	-0.1%	5.94	-5.4%	6.39	7.5%
Other debt	0.00	-100.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Total long-term debt	**78.87**	**-6.9%**	**78.85**	**-0.0%**	**73.77**	**-6.4%**	**66.54**	**-9.8%**
Short-term debt								
Other provisions	19.49	12.2%	19.47	-0.1%	18.43	-5.4%	19.82	7.5%
Trade payables	19.83	-8.7%	19.82	-0.1%	18.75	-5.4%	20.17	7.5%
Financial debt	13.42	-14.7%	5.46	-59.3%	0.00	-100.0%	0.00	0.0%
Tax liabilities	0.15	130.3%	0.15	-0.1%	0.14	-5.4%	0.15	7.5%
Other liabilities	13.16	37.2%	13.15	-0.1%	12.44	-5.4%	13.38	7.5%
Advance payments	14.59	-17.0%	14.58	-0.1%	13.80	-5.4%	14.84	7.5%
Total short-term debt	**80.63**	**-1.7%**	**72.63**	**-9.9%**	**63.57**	**-12.5%**	**68.37**	**7.5%**
Total Equity & Liabilities	**168.11**	**2.1%**	**170.95**	**1.7%**	**166.48**	**-2.6%**	**174.67**	**4.9%**

Source: Schaltbau, Solventis Research

Schaltbau Group: DCF model

(m €)	2008e	2009e	2010e	2011e	2012e	Terminal Value
Sales	280.2	280.0	265.0	285.0	300.0	
% change	20.7%	-0.1%	-5.4%	7.5%	5.3%	
EBITDA	27.8	28.0	24.9	26.5	27.8	
EBITDA margin	9.9%	10.0%	9.4%	9.3%	9.3%	
EBIT	21.9	21.8	18.6	20.0	21.0	
EBIT margin	7.8%	7.8%	7.0%	7.0%	7.0%	
NOPLAT	18.1	17.9	14.8	16.0	16.8	15.1
Reinvestment Rate	58.6%	-1.2%	-19.9%	38.7%	28.5%	21.1%
FCFF	7.5	18.1	17.8	9.8	12.0	162.2
WACC	6.57%	6.86%	7.06%	7.40%	7.77%	7.59%
Cumulative WACC		106.86%	114.40%	122.87%	132.42%	142.47%
Net present value FCFF		17.0	15.6	8.0	9.1	113.9
Total net present value FCFF	**49.6**					
Net present value Terminal Value	**113.9**					
as % of enterprise value	69.7%					
Enterprise value	**163.4**					
Net financial debt	75.6					
Value of tax-loss carried forward	0.0					
Minorities	10.0					
Associates	15.0					
Equity value	**92.8**					
Value per share (€)	**49.67**					

Source: Solventis Research

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b) Author

Klaus Soer, Analyst

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- Buy: The stock is expected, in our estimation, to generate an absolute return of at least 10% during the next 12 months time horizon.
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Domestic and foreign media and information services (e.g. Infobolsa, Thomson Financial etc.), the financial press (e.g. Börsenzeitung, Handelsblatt, FAZ, FTD, Wallstreet Journal, Financial Times etc.), the trade press, published statistics, as well as publications, announcements, data and information of or provided by the issuers analyzed, and the Internet.

8. Summary of the techniques used for valuation
Individual issuers: The companies are valued using common, generally accepted methods of valuation (such as the DCF method and peer group analysis). With the DCF method, the capitalized earnings value of the issuers is calculated, which represents the sum of the company's discounted anticipated future cash flows, i.e. the net present value of the issuer's future net distributions. The capitalized earnings value is therefore determined by the future cash flows which are anticipated and by the discount rate which is applied. With the peer group analysis, issuers are valued by comparison with valuation multiples (e.g. price/earnings ratio, price/book value ratio, enterprise value/sales, enterprise value/EBITDA, enterprise value/EBIT) of other listed companies. The comparability of the valuation multiples is determined primarily by the respective company's business activity and economic potential.

Theme-based studies: The impact of a given development (e.g. EU enlargement in Eastern Europe, rising electricity prices) on various issuers is determined by applying the assumed development to the issuer's published business, income, cost and sales structure.

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