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Schaltbau Holding AG

Growth trend resuming 2011

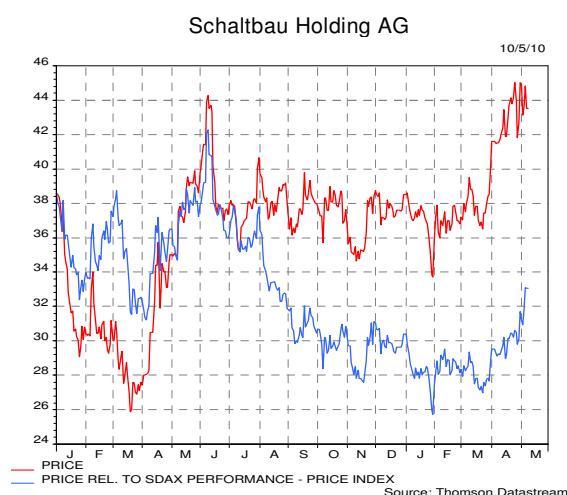
Buy (Buy)

Price Target	65.00 €
Price (10.5.2010)	43.50 €
ISIN	DE0007170300
Market capitalization (m €)	81.3
No. of shares (m)	1.87
Website:	www.schaltbau.de

	2009	2010e	2011e	2012e
Sales (m €)	269.77	270.00	307.00	349.00
EBIT (m €)	20.32	17.55	21.49	24.43
EBIT margin	7.5%	6.5%	7.0%	7.0%
EBITDA (m €)	26.45	25.08	30.41	34.75
EBITDA margin	9.8%	9.3%	9.9%	10.0%
Earnings per share (€)*	6.61	5.42	6.47	7.97
Dividend per share (€)	0.70	0.90	1.10	1.30
Book val. per share (€)	10.98	15.50	20.87	27.53
PER	6.58	8.03	6.72	5.46
Price/book value	3.96	2.81	2.08	1.58
EV/EBIT	7.53	8.25	6.35	5.13
EV/EBITDA	5.78	5.77	4.49	3.61
EV/sales	0.57	0.54	0.44	0.36
Dividend yield	1.61%	2.07%	2.53%	2.99%

The presentation of 2009 full year results and key figures for Q1 2010 confirms our previous expectations. Investments for expanding the international presence will lead to a brief break of the growth trend in 2010. The current market value of the Schaltbau shares remains undervalued in our opinion.

- Schaltbau reported sales and operating earnings of 270 m € (-3.7%) and 20.3 m € (-7%), respectively. The Ebit margin came in at 7.5% (yoy 7.8%). The reported figures were in line with our expectations.
- The balance sheet ratios at Schaltbau are continuously improving. The financial debt (incl. pension provisions) went down by 4 m € to 71.6 m €. The gearing (Net Debt/Equity) went down by more than one half from 878% to 349%. This sets the pace for further internal and external financing.
- Adverse weather conditions in Q1 2010 were the cause for reduced sales of 62 m € (-14.5%). For this reason operating earnings were off 31% to 4.2 m €.
- The business year 2010 will be a year of transition. We expect along with high order intake (280 m €, +11%) – above all in the area of mobile traffic systems – sales in the area of the level attained in 2009. Investments for expansion of the international presence however will be cause for a reduction in operating earnings by some 13.6%. In our opinion growth is set to resume again in 2011.
- Based on classical ratios analysis and taking into consideration the long term good prospects we derive from our DCF model, the shares of Schaltbau remain clearly undervalued.
- We stick to our buy recommendation for the Schaltbau shares. Our price target for the share is unchanged at 65 €.



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2009: Earnings steady at high level – Schaltbau hardly affected by economic crisis

Schaltbau group sales in 2009 were reported at 269.8 m € (- 3.7% yoy). The area of mobile traffic systems (for Bus and Train doors) experienced a slight sales increase (+1.3%) to 108.8 m €. The areas of stationary traffic technology (94.7 m €, -9.7%) and components (68.2 m €, -2.4%) both reported a weaker sales development.

The operating earnings were off 7% to 20.3 m € in 2009. We value the high earnings and an Ebit margin of 7.5% (previous year: 8.5%) as a good mark in light of the economic developments with important end market customers.

The finance result at a level of -3.4 m € more than halved in comparison to the previous year's level. The lower net debt (-3.8 m € to 33.9 m €) reported was chiefly coming from the sale of the Chinese Bode Beijing Transportation Equipment. Schaltbau reported a profit from the sale proceeds of 1 m €.

The use of tax-losses carried forward is the reason for the relatively low tax rate of 17%. Net income at Schaltbau after minorities amounted to 12.4 m € (+4.2% yoy) and EPS turned out at 6.61 € (+4.2% yoy).

The minority interests to the tune of 1.74 m € (+41.5%) clearly indicate the Chinese JVs have again contributed nicely to the group results. We estimate the percentage of sales and earnings of the Chinese JVs are some 7% and 30% (previous year: 19%), respectively, at Schaltbau.

Owing to the sale of one of the Chinese JVs Schaltbau is again increasing the dividend. At a payout of 10.6% or a level of .70 € (previous year: .50 €) however the dividend remains relatively low. The low shareholder's equity is the main reason why the dividend payout is low. At the end of 2009 the shareholder's equity as a percentage of the balance sheet total reached 12.2% (previous year: 5.1%). In the coming years we anticipate the company will payout increasing dividends.

In spite of the weak economic development Schaltbau overall kept a steady level of profitability levels in 2009.

Net debt reduced – Shareholder's equity ratio higher

The net debt including pension provisions in 2009 declined by some 4 m € to 71.6 m €. In light of capital expenditures of some (e) 10 m € and free cash flow of approx. (e)14 m €, we reckon with a further reduction (not taking into consideration possible acquisitions) of debt for 2010.

The positive earnings development at Schaltbau in 2009 and the low dividend payout allow for an improved equity situation. The shareholder's equity ratio has now increased to 12.2% (2008: 5.1%) after being negative for years due to the company restructuring executed years ago.

The structure of the balance sheet will improve further in 2010 in our opinion. Shareholder's equity should increase to (e) 29 m € by year end 2010. Accordingly the equity ratio will be some (e) 17% and the BVPS will be equal to (e) 15.50 € (2009: 10.98 €) at the end of 2010.

First quarter 2010: Sales and earnings down

First quarter order intake in 2010 was slightly off (-1.4% yoy) and amounted to 78.2 m €. In comparison to the fourth quarter of 2009 however the orders increased by 34%. The improving trends are mainly coming from improving economic developments in many industrial areas.

Owing to poor weather conditions the sales in Q1/2010 were 14.5% lower than the previous year's level. Especially orders already acquired from the Deutsche Bahn for the traffic systems area will first start to be executed in Q2.

Correspondingly the operating earnings in Q1 developed clearly weaker (-31% yoy) and were reported at 4.2 m €.

Schaltbau: Quarterly Figures

	Q4/09	Change %	2009	Change %	Q1/10	Change %	2010e	Change %
Order intake	58.2	-46.3	251.6	-10.1	78.2	-1.4	280.0	11.3
Sales	64.9	-53.7	269.8	-3.7	62.1	-14.5	270.0	0.1
EBIT	5.5	-38.7	20.3	-7.0	4.2	-31.1	17.6	-13.6
<i>EBIT margin %</i>	<i>8.5</i>		<i>7.5</i>		<i>6.8</i>		<i>6.5</i>	
Group net income	4.4	11.9	14.1	7.8	2.5	-41.9	11.6	-17.5
Group net income after minorities	4.1	18.8	12.4	4.3	1.9	-48.6	10.1	-18.0
EPS	2.2	0.3	6.61	4.3	1.02	-48.1	5.4	-18.0

Source: Schaltbau Holding AG

Outlook 2010: Late cyclical impact of the crisis breaks the trend in growth

We anticipate the trends we have seen in Q1 will continue for the full year 2010. Group sales should recover during the course of the year: we estimate 270 m € or a figure similar to level achieved in 2009. Operating earnings will be off ca. 14% to (e) 17.6 m €. Above all the investments made to expand international distribution locations will lead to the declining margins. The Ebit margin in 2010 will turn out at (e) 6.5% or below the 7.5% level achieved in 2009. We estimate the 2010 EPS will come in at some 5.42 € (-18% yoy).

In the first quarter of 2010 Schaltbau purchased back the company's previous distribution partner in the US, the Bode Corp. The company chalks up only a low amount of sales however establishes an excellent platform for Schaltbau to sell its products into the growing US market for train technology.

Beginning 2011 we expect growth will resume again. Growth can be expected in international markets through a possible stronger presence in markets like China, India, North America and Russia.

Management at Schaltbau continues to look for both organic growth and growth through acquisitions. The focus remains indeed to concentrate on steady earnings power along with low cyclicality. For this reason we expect the company to make only small acquisitions that are interesting either from the perspective of products or regional presence.

Schaltbau share is trading under fair value

The Schaltbau share shows relative resistance to market volatility and has performed much better than the whole market and the SDAX as well since the beginning of 2010.

Simultaneously the share stands out with a low valuation in comparison to its peers. Based on the classical ratio comparisons to the peer group the Schaltbau share shows a discount of up to 66%. In comparison to the peer group companies Schaltbau as well displays lower earnings volatility.

Taking into consideration the good longer-term prospects for the company, our DCF model confirms the share is undervalued as well. Accordingly the fair value of the Schaltbau share is still at some 65 € which is clearly lower than the current share price.

The relatively high discount currently signals the continuing uncertainty of the earnings development in the business year 2010 and the resuming growth trend again in 2011. During the course of the year 2010 we expect the positive prospects for the company will become clearer.

Schaltbau: Peer Group Comparison

Company	Price 07.05.2010	Currency	PER 2009	PER 2010e	PER 2011e	EV/EBITDA 2010e	EV/EBITDA 2011e	EV/EBIT 2010e	EV/EBIT 2011e	Ebit Margin 2010e	Price/ Book Value 2010e	EV/Sales 2010e
SIEMENS AG	68,45	Euro	26,0	13,6	11,7	7,7	6,8	11,2	9,5	8,7%	2,0	1,0
VOSSLOH AG	74,30	Euro	11,3	11,0	10,7	6,8	6,2	8,1	7,6	11,3%	1,9	0,9
MAN AG	64,49	Euro	43,9	20,5	13,3	9,3	7,2	14,6	10,2	5,8%	1,7	0,8
BOMBARDIER INC	4,86	U.S. Dollar	12,5	13,6	11,0	5,2	4,4	7,9	6,4	5,8%	2,0	0,5
Average (unweighted)			23,4	14,7	11,7	7,3	6,1	10,4	8,4	7,9%	1,9	0,8
MEDIAN			19,2	13,6	11,3	7,2	6,5	9,6	8,5	7,3%	2,0	0,9
SCHALTBAU HOLDING AG	43,50	Euro	6,6	8,0	6,7	5,7	4,4	8,2	6,3	7,0%	2,7	0,4
Deviation to MEDIAN			-65,8%	-41,0%	-41,1%	-20,4%	-31,8%	-14,9%	-26,4%	-3,7%	40,4%	-50,1%

Source: Thomson Reuters, Solventis Research

Taking into consideration the growth trend will pick up again in 2011 one can see the shares of the company offer large potential to increase in value. We expect the driver for this will be an increasing order intake in the next quarters.

We continue to recommend buying Schaltbau shares. Our target for the share remains unchanged at 65 €.

Schaltbau Group: P+L (m €)

	2009	yoy	2010e	yoy	2011e	yoy	2012e	yoy
Sales	269.77	-3.7%	270.00	0.1%	307.00	13.7%	349.00	13.7%
Unfinished goods	-9.14	-814.1%	-9.15	0.1%	-10.40	13.7%	-11.82	13.7%
Inventory changes & own work cap.	1.45	64.7%	0.70	-51.4%	0.70	0.0%	0.70	0.0%
Other operating earnings	5.04	20.1%	5.19	3.1%	5.44	4.7%	6.12	12.5%
Cost of goods	132.39	-12.3%	132.50	0.1%	150.66	13.7%	171.27	13.7%
Gross profit	134.73	-0.6%	134.25	-0.4%	152.08	13.3%	172.73	13.6%
Personnel expenses	81.73	3.0%	81.80	0.1%	93.01	13.7%	105.73	13.7%
Depreciation	6.13	2.7%	7.53	22.8%	8.92	18.5%	10.32	15.6%
Other operating expenses	26.55	-6.6%	27.37	3.1%	28.66	4.7%	32.25	12.5%
Ebit (prerestruct. charges)	20.32	-7.0%	17.55	-13.6%	21.49	22.5%	24.43	13.7%
Ebit margin (prerestruct. charges)	7.53%	-0.3 pp	6.50%	-1.0 pp	7.00%	0.5 pp	7.00%	0.0 pp
Ebitda	26.45	-4.9%	25.08	-5.2%	30.41	21.3%	34.75	14.3%
Ebitda margin	9.81%	-0.1 pp	9.29%	-0.5 pp	9.91%	0.6 pp	9.96%	0.0 pp
Ebit	20.32	-7.0%	17.55	-13.6%	21.49	22.5%	24.43	13.7%
Ebit margin	7.53%	-0.3 pp	6.50%	-1.0 pp	7.00%	0.5 pp	7.00%	0.0 pp
Earnings minorities	2.31	610.5%	0.30	-87.0%	0.30	0.0%	0.30	0.0%
Interest income	0.08	-64.8%	0.33	340.0%	0.08	-77.0%	0.08	7.8%
Interest expense	5.78	-12.2%	4.00	-30.8%	4.51	12.8%	3.45	-23.6%
Financial result	-3.40	-43.8%	-3.37	-0.9%	-4.13	22.7%	-3.07	-25.8%
Earnings before taxes (EBT)	16.92	7.1%	14.18	-16.2%	17.36	22.4%	21.36	23.1%
EBT margin	6.27%	0.6 pp	5.25%	-1.0 pp	5.65%	0.4 pp	6.12%	0.5 pp
Taxes	2.83	3.5%	2.55	-9.7%	3.47	36.0%	4.27	23.1%
Tax rate	16.71%	-0.6 pp	18.00%	1.3 pp	20.00%	2.0 pp	20.00%	0.0 pp
Earnings after taxes (EAT)	14.09	7.8%	11.63	-17.5%	13.88	19.4%	17.09	23.1%
Minorities	1.74	41.8%	1.50	-13.9%	1.79	19.4%	2.20	23.1%
Group net Net income	12.35	4.3%	10.13	-18.0%	12.09	19.4%	14.89	23.1%
No. of shares on 10.05.2010 (m)	1.87	0.0%	1.87	0.0%	1.87	0.0%	1.87	0.0%
Earnings per share (€)	6.61	4.3%	5.42	-18.0%	6.47	19.4%	7.97	23.1%

Source: Schaltbau, Solventis Research

Schaltbau Group: Balance Sheet (m €)

	2009	yoy	2010e	yoy	2011e	yoy	2012e	yoy
Assets								
Cash and cash equivalents	8.51	59.6%	8.10	-4.8%	9.21	13.7%	10.47	13.7%
Accounts receivables	37.81	13.8%	37.74	-0.2%	42.92	13.7%	48.79	13.7%
Inventories	41.12	-22.9%	41.04	-0.2%	46.66	13.7%	53.05	13.7%
Other noncurrent assets	9.95	48.8%	9.95	0.0%	9.95	0.0%	9.95	0.0%
Total noncurrent assets	97.38	-1.3%	96.83	-0.6%	108.74	12.3%	122.25	12.4%
Fixed assets	41.34	2.6%	41.81	1.1%	41.89	0.2%	41.58	-0.8%
Intangible assets	13.62	11.5%	13.62	0.0%	13.62	0.0%	13.62	0.0%
Financial assets	6.56	-17.9%	6.56	0.0%	6.56	0.0%	6.56	0.0%
Deferred Taxes	8.89	-1.3%	8.89	0.0%	8.89	0.0%	8.89	0.0%
Total fixed assets	70.41	1.3%	70.88	0.7%	70.96	0.1%	70.65	-0.4%
Total assets	167.79	-0.2%	167.71	-0.0%	179.70	7.1%	192.90	7.3%
Equity & Liabilities								
Subscribed capital	6.85	0.0%	6.85	0.0%	6.85	0.0%	6.85	0.0%
Capital reserves	8.44	0.0%	8.44	0.0%	8.44	0.0%	8.44	0.0%
Returned earnings	-12.93	-45.9%	-4.49	-65.3%	5.55	-223.8%	18.01	224.4%
Accumulated other comprehensive income	15.22	2.7%	15.22	0.0%	15.22	0.0%	15.22	0.0%
Shareholder's equity	17.59	183.0%	26.03	48.0%	36.07	38.6%	48.53	34.5%
Minorities	2.93	22.5%	2.93	0.0%	2.93	0.0%	2.93	0.0%
Shareholder's equity with minorities	20.52	138.4%	28.97	41.2%	39.00	34.7%	51.46	31.9%
	12.23		17.27					
Long-term debt								
Pension provisions	18.86	-0.7%	18.87	0.1%	21.46	13.7%	24.39	13.7%
Other provisions	4.95	-2.7%	4.95	0.1%	5.63	13.7%	6.40	13.7%
Financial liabilities	36.48	-24.8%	36.48	0.0%	36.48	0.0%	30.19	-17.2%
Tax liabilities	6.59	4.9%	6.59	0.1%	7.50	13.7%	8.52	13.7%
Total long-term debt	66.87	-15.2%	66.90	0.0%	71.07	6.2%	69.51	-2.2%
Short-term debt								
Other provisions	20.45	5.0%	20.47	0.1%	23.28	13.7%	26.46	13.7%
Trade payables	15.15	-23.6%	15.12	-0.2%	17.20	13.7%	19.55	13.7%
Financial debt	24.78	84.7%	16.22	-34.5%	6.37	-60.8%	0.00	-100.0%
Tax liabilities	0.10	-36.8%	0.10	0.1%	0.11	13.7%	0.12	13.7%
Other liabilities	10.05	-23.6%	10.06	0.1%	11.44	13.7%	13.01	13.7%
Advance payments	9.96	-31.7%	9.97	0.1%	11.34	13.7%	12.89	13.7%
Total short-term debt	80.50	-0.2%	71.95	-10.6%	69.73	-3.1%	72.03	3.3%
Total Equity & Liabilities	167.89	-0.1%	167.81	-0.0%	179.80	7.1%	193.00	7.3%

Source: Schaltbau, Solventis Research

Schaltbau: DCF model

(m €)	2009	2010e	2011e	2012e	2013e	2014e	Terminal Value
Sales	270,5	270,0	307,0	349,0	391,0	435,0	
% change	-3,5%	-0,2%	13,7%	13,7%	12,0%	11,3%	
EBITDA	26,5	25,1	30,4	34,7	39,7	43,9	
EBITDA margin	9,8%	9,3%	9,9%	10,0%	10,2%	10,1%	
EBIT	20,3	17,6	21,5	24,4	28,0	30,8	
EBIT margin	7,5%	6,5%	7,0%	7,0%	7,2%	7,1%	
NOPLAT	16,9	14,4	17,2	19,5	21,8	23,5	23,4
Reinvestment Rate	3,9%	2,5%	51,2%	49,1%	42,2%	39,4%	20,8%
FCFF	16,3	14,0	8,4	10,0	12,6	14,3	220,3
WACC	6,80%	6,92%	7,07%	7,38%	7,59%	8,14%	8,70%
Cumulative WACC		106,92%	114,47%	122,92%	132,25%	143,02%	155,46%
Net present value FCFF		13,1	7,3	8,1	9,5	10,0	141,7
Total net present value FCFF		48,1					
Net present value Terminal Value		141,7					
as % of enterprise value		74,7%					
Enterprise value		189,8					
Net financial debt		71,6					
Value of tax-loss carried forward		0,0					
Minorities		10,0					
Associates		15,0					
Equity value		123,2					
Value per share (€)		65,90					

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. VWD, Thomson Reuters 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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