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Schaltbau Holding AG

2008 guidance raised, switch to Prime Standard

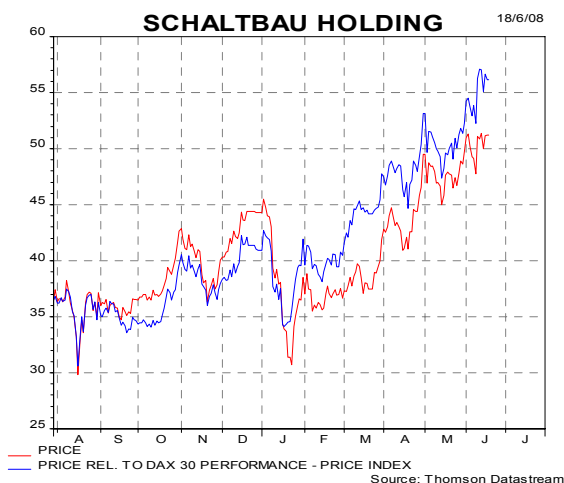
Buy (Buy)

| | |
|-----------------------------------|------------------|
| Target price | € 60 (€ 50) |
| Price (17.6.2008) | € 51.20 |
| ISIN | DE0007170300 |
| Market capitalization (€ million) | 95.69 |
| No. of shares (million) | 1.87 |
| Website: | www.schaltbau.de |

| | 2007 | 2008e | 2009e | 2010e |
|-------------------------|--------|--------|--------|--------|
| Sales (€m) | 232.06 | 265.00 | 275.00 | 284.00 |
| EBIT (€m) | 14.10 | 20.67 | 22.83 | 22.72 |
| EBIT margin | 6.1% | 7.8% | 8.3% | 8.0% |
| EBITDA (€m) | 19.35 | 26.13 | 28.50 | 28.60 |
| EBITDA margin | 8.3% | 9.9% | 10.4% | 10.1% |
| Earnings per share (€) | 3.85 | 5.87 | 6.57 | 7.78 |
| Dividend per share (€) | 0.30 | 0.60 | 0.80 | 1.00 |
| Book val. per share (€) | -1.13 | 4.14 | 9.92 | 16.70 |
| PER | 13.29 | 8.72 | 7.79 | 6.58 |
| Price/book value | -45.35 | 12.36 | 5.16 | 3.07 |
| EV/EBIT | 12.44 | 7.99 | 6.78 | 6.30 |
| EV/EBITDA | 9.06 | 6.32 | 5.43 | 5.01 |
| EV/sales | 0.76 | 0.62 | 0.56 | 0.50 |
| Dividend yield | 0.59% | 1.17% | 1.56% | 1.95% |

In light of the improvements in the first quarter and a good course of business in April and May Schaltbau has upped its forecasts for 2008. In response we have revised our expectations upwards. We are raising our price target by € 10 to € 60 and confirm our Buy recommendation.

- After an unexpectedly strong 2008 to date Schaltbau's management has raised its guidance for 2008 as follows: sales € 263m (previously € 255m); EBIT € 17.7m (€ 15.5m); EAT € 10.3m (€ 8.6m); EPS € 5.50 - 5.70 (€ 4.50 - 4.70); order intake € 260m (€ 255m).
- Management has also decided to switch to the Prime Standard. This will broaden the circle of potential investors. This is also a necessary precondition for entry into the SDAX, which appears possible in the mid term.
- Schaltbau is profiting from the renaissance in rail transport at home and abroad and the expansion of port capacities worldwide, especially in China and India.
- The Schaltbau stock is undervalued both on comparison with the peer group companies based on traditional multiples and allowing for the long-term prospects in our DCF model. On the basis of our revised estimates we derive a fair value of around € 60 (previously € 50) per share.
- We confirm our Buy recommendation and raise our price target by € 10 to € 60.



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In light of the good business development management has upped its guidance for 2008

While Schaltbau's management has raised its forecasts for 2008, it merely confirmed its guidance for 2009 for the time being. Schaltbau will be announcing updated figures on the expected development in 2009 in November when the detailed three-year business planning has been completed.

Schaltbau is profiting from the need worldwide to expand and upgrade the logistical infrastructure such as railroads and port facilities. Many projects have been decided in the past years and orders already placed. There are a number of other projects and contract awards still in the pipeline for the coming years. This is the case both in the European and in the Asian railroad market.

With regard to the climate protection debate and energy efficiency the energy balance clearly argues in favour of rail. The high petrol prices are like an incentive programme for rail transport. In the USA for instance public transport operators have been witnessing growth rates of up to 5% again. We expect this trend to continue.

Switch to the Prime Standard will be a door opener

The announced switch to the Prime Standard is to be welcomed. This quality seal will make the Schaltbau stock eligible for wider circles of investors at home and abroad. Schaltbau already brought its financial reporting closer into line with the requirements of the Prime Standard last year. Only small further adjustments are necessary. For instance the already fairly detailed interim reports in the first and second half year will be replaced by corresponding quarterly reports in German and (simultaneously) in English. A listing in the Prime Standard is also a necessary condition for the Schaltbau stock's admission to the SDAX in the mid term. At present, the Schaltbau stock ranks in 120th place in terms of free float market capitalization and in 114th place in terms of trading volume. To be able to enter the SDAX the Schaltbau stock needs to reach at least 110th place on both criteria.

Valuation leaves room for upside potential

We have adjusted our sales forecasts for 2008 to the company's higher guidance and now estimate a figure of € 265m versus € 255.30m previously. We are leaving the rates of change for sales in the following years (2009ff) largely unchanged. We have not altered our estimated EBIT margins. However, the higher sales results in higher EBIT: our estimate for 2008 is now € 20.67m versus € 19.91m previously. We see EPS at € 5.87 (previously € 5.57).

The share price has risen further since our update in April and has reached a level of € 50, which could induce buyers of the convertible bond issued in

2007 to exercise their conversion rights. If the whole issue were converted, this would increase the company's equity capital by about € 7.5m and the number of shares by 184,782. Financial debt would decline accordingly. This would strengthen the equity base and reduce the associated risks. According to the Thomson database the Schaltbau stock's beta has fallen to 0.69 in recent months. We have adjusted our calculation of WACC in the detail forecasting phase accordingly but have applied a beta of 1.0 in TV. Previously, we had assumed a beta of 1.10.

As a result of these changes the fair value of the Schaltbau stock rises to € 60.32 from € 50.21 previously. If the entire convertible bond issue were converted, this would affect the fair value only marginally as debt and interest expense would fall, too.

The Schaltbau stock's price potential is also confirmed by our regression models based on the peer group data.

Conclusion

Business at Schaltbau is developing better than forecast in the company's planning for 2008. Management has therefore raised its guidance accordingly. Schaltbau is profiting from global investment in infrastructure – in this case especially in rail transport and port facilities. The cycle still has a number of years to run and should be reinforced by the high energy prices and climate protection requirements. We are raising our price target for the Schaltbau stock by € 10 to € 60 and confirm our Buy recommendation.

Peer Group Comparison

| Company | Price | | PER | PER | PER | EV/EBITDA | EV/EBITDA | EV/EBIT | EV/EBIT | Ebit Margin | Ebit | Price/ Book | EV/Sales |
|----------------------|------------|----------|--------|--------|--------|-----------|-----------|---------|---------|-------------|--------|-------------|----------|
| | 17/06/2008 | Currency | | | | | | | | | | | |
| FUNKWERK AG | 11,49 | Euro | 14,4 | 11,2 | 8,5 | 3,3 | 2,8 | 6,8 | 5,2 | 4,2% | 0,7 | 0,7 | 0,3 |
| VOSSLOH AG | 92,41 | Euro | 19,7 | 14,7 | 14,1 | 8,1 | 7,4 | 9,9 | 9,1 | 10,8% | 2,9 | 2,6 | 1,1 |
| DELACHAUX S.A | 64,80 | Euro | 15,9 | 15,5 | 13,7 | 9,7 | 8,6 | 11,1 | 9,8 | 11,7% | 2,1 | 1,9 | 1,3 |
| FAIVELEY | 46,00 | Euro | 15,9 | 14,4 | 13,4 | 5,0 | 4,3 | 6,0 | 5,1 | 12,8% | 3,1 | 2,7 | 0,8 |
| ANSALDO STS SPA | 9,80 | Euro | 16,9 | 15,4 | 14,0 | 6,6 | 5,7 | 7,3 | 6,2 | 10,7% | 4,2 | 3,7 | 0,8 |
| Average (unweighted) | | | 16,5 | 14,3 | 12,8 | 6,5 | 5,8 | 8,2 | 7,1 | 10,05% | 2,6 | 2,3 | 0,8 |
| MEDIAN | | | 15,9 | 14,7 | 13,7 | 6,6 | 5,7 | 7,3 | 6,2 | 10,82% | 2,9 | 2,6 | 0,8 |
| SCHALTBAU HOLDING AG | 51,20 | Euro | 13,3 | 9,6 | 8,4 | 6,9 | 6,0 | 9,1 | 7,5 | 7,00% | 13,3 | 5,5 | 0,6 |
| Deviation to MEDIAN | | | -16,4% | -34,5% | -38,6% | 5,0% | 4,4% | 24,5% | 20,7% | -35,3% | 360,2% | 115,8% | -18,6% |

Source: Thomson Financial, Solventis estimates

Schaltbau Group: P&L

| | 2007 | yoy | 2008e | yoy | 2009e | yoy | 2010e | yoy |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Sales | 232.06 | 9.1% | 265.00 | 14.2% | 275.00 | 3.8% | 284.00 | 3.3% |
| Unfinished goods | 2.90 | -6.0% | 3.31 | 14.2% | 3.43 | 3.8% | 3.54 | 3.3% |
| Inventory changes & own work cap. | 1.20 | n.m. | 0.40 | -66.7% | 0.40 | 0.0% | 0.40 | 0.0% |
| Other operating earnings | 3.23 | 21.5% | 2.82 | -12.8% | 2.68 | -4.9% | 2.91 | 8.6% |
| Cost of goods | 123.54 | 12.0% | 141.07 | 14.2% | 146.40 | 3.8% | 151.19 | 3.3% |
| Gross margin | 115.85 | 7.1% | 130.45 | 12.6% | 135.11 | 3.6% | 139.67 | 3.4% |
| Personnel expenses | 74.77 | 4.0% | 85.39 | 14.2% | 88.61 | 3.8% | 91.51 | 3.3% |
| Depreciation | 5.26 | 4.4% | 5.46 | 3.9% | 5.67 | 3.8% | 5.88 | 3.7% |
| Other operating expenses | 21.72 | 11.6% | 18.93 | -12.8% | 18.01 | -4.9% | 19.56 | 8.6% |
| Ebit (prerestruct. charges) | 14.10 | 19.5% | 20.67 | 46.6% | 22.83 | 10.4% | 22.72 | -0.5% |
| Ebit margin (prerestruct. charges) | 6.07% | 0.5 pp | 7.80% | 1.7 pp | 8.30% | 0.5 pp | 8.00% | -0.3 pp |
| Ebitda | 19.35 | 15.0% | 26.13 | 35.0% | 28.50 | 9.0% | 28.60 | 0.4% |
| Ebitda margin | 8.34% | 0.4 pp | 9.86% | 1.5 pp | 10.36% | 0.5 pp | 10.07% | -0.3 pp |
| Ebit | 14.10 | 19.5% | 20.67 | 46.6% | 22.83 | 10.4% | 22.72 | -0.5% |
| Ebit margin | 6.07% | 0.5 pp | 7.80% | 1.7 pp | 8.30% | 0.5 pp | 8.00% | -0.3 pp |
| Earnings minorities | 1.52 | 39.5% | 1.52 | 0.0% | 1.52 | 0.0% | 1.52 | 0.0% |
| Interest income | 0.25 | 226.0% | 0.24 | -3.3% | 0.24 | -2.6% | 0.24 | 1.6% |
| Interest expense | 5.84 | 33.6% | 6.20 | 6.3% | 6.60 | 6.5% | 3.19 | -51.7% |
| Financial result | -4.06 | 27.0% | -4.44 | 9.2% | -4.84 | 9.2% | -1.43 | -70.5% |
| Earnings before taxes (EBT) | 10.03 | 16.7% | 16.23 | 61.8% | 17.98 | 10.8% | 21.29 | 18.4% |
| EBT margin | 4.32% | 0.3 pp | 6.13% | 1.8 pp | 6.54% | 0.4 pp | 7.50% | 1.0 pp |
| Taxes | 1.87 | -27.2% | 4.06 | 117.1% | 4.50 | 10.8% | 5.32 | 18.4% |
| Tax rate | 18.63% | -11.2 pp | 25.00% | 6.4 pp | 25.00% | 0.0 pp | 25.00% | 0.0 pp |
| Earnings after taxes (EAT) | 8.17 | 35.4% | 12.18 | 49.1% | 13.49 | 10.8% | 15.97 | 18.4% |
| Minorities | 0.97 | -8.1% | 1.20 | 24.1% | 1.20 | 0.0% | 1.42 | 18.4% |
| Group net Net income | 7.20 | 44.6% | 10.98 | 52.5% | 12.29 | 11.9% | 14.55 | 18.4% |
| No. of shares on 16/8/2008 (mill.) | 1.87 | 0.0% | 1.87 | 0.0% | 1.87 | 0.0% | 1.87 | 0.0% |
| Earnings per share | 3.85 | 44.6% | 5.87 | 52.5% | 6.57 | 11.9% | 7.78 | 18.4% |

Source: Schaltbau, Solventis estimates

Schaltbau Group: Balance Sheet

| | 2007 | yoy | 2008e | yoy | 2009e | yoy | 2010e | yoy |
|---|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|
| Assets | | | | | | | | |
| Cash and cash equivalents | 7.88 | 71.0% | 6.81 | -13.6% | 7.06 | 3.8% | 7.30 | 3.3% |
| Accounts receivables | 33.78 | 19.5% | 38.58 | 14.2% | 40.04 | 3.8% | 41.35 | 3.3% |
| Inventories | 46.41 | 9.7% | 52.99 | 14.2% | 54.99 | 3.8% | 56.79 | 3.3% |
| Other noncurrent assets | 7.55 | 38.6% | 7.55 | 0.0% | 7.55 | 0.0% | 7.55 | 0.0% |
| Accruals/Deferrals | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% |
| Tax claims | 0.22 | 363.8% | 0.22 | 0.0% | 0.22 | 0.0% | 0.22 | 0.0% |
| Total noncurrent assets | 95.84 | 18.8% | 106.15 | 10.8% | 109.86 | 3.5% | 113.20 | 3.0% |
| Fixed assets | 40.35 | 8.7% | 39.89 | -1.1% | 40.22 | 0.8% | 41.34 | 2.8% |
| Intangible assets | 11.41 | 85.7% | 11.41 | 0.0% | 11.41 | 0.0% | 11.41 | 0.0% |
| Goodwill | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% |
| Financial assets | 8.40 | 58.4% | 8.40 | 0.0% | 8.40 | 0.0% | 8.40 | 0.0% |
| Deferred Taxes | 8.73 | -13.9% | 8.73 | 0.0% | 8.73 | 0.0% | 8.73 | 0.0% |
| Other fixed assets | 0.00 | -100.0% | 0.00 | 0.0% | 0.00 | 0.0% | 0.00 | 0.0% |
| Total fixed assets | 68.89 | 16.1% | 68.42 | -0.7% | 68.75 | 0.5% | 69.88 | 1.6% |
| Total assets | 164.73 | 17.7% | 174.57 | 6.0% | 178.61 | 2.3% | 183.08 | 2.5% |
| Equity & Liabilities | | | | | | | | |
| Subscribed capital | 6.84 | 0.0% | 6.84 | 0.0% | 6.84 | 0.0% | 6.84 | 0.0% |
| Capital reserves | 8.34 | 7.7% | 8.34 | 0.0% | 8.34 | 0.0% | 8.34 | 0.0% |
| Returned earnings | -29.60 | -14.2% | -19.75 | -33.3% | -8.96 | -54.6% | 3.72 | -141.5% |
| Accumulated other comprehensive income | 10.24 | 33.8% | 10.24 | 0.0% | 10.24 | 0.0% | 10.24 | 0.0% |
| Shareholder's equity | -4.19 | -65.9% | 5.66 | -235.2% | 16.46 | 190.5% | 29.13 | 77.0% |
| Minorities | 2.08 | -6.6% | 2.08 | 0.0% | 2.08 | 0.0% | 2.08 | 0.0% |
| Shareholder's equity with minorities | -2.11 | -79.0% | 7.74 | -467.0% | 18.54 | 139.4% | 31.21 | 68.4% |
| | | | | | 13.14 | | 24.87 | |
| Long-term debt | | | | | | | | |
| Pension provisions | 19.14 | -0.9% | 21.86 | 14.2% | 22.69 | 3.8% | 23.43 | 3.3% |
| Other provisions | 5.80 | -23.8% | 6.63 | 14.2% | 6.88 | 3.8% | 7.10 | 3.3% |
| Financial liabilities | 52.65 | 18.3% | 52.65 | 0.0% | 43.40 | -17.6% | 31.37 | -27.7% |
| Tax liabilities | 6.03 | -19.0% | 6.89 | 14.2% | 7.15 | 3.8% | 7.38 | 3.3% |
| Other debt | 1.13 | 42.5% | 1.29 | 14.2% | 1.34 | 3.8% | 1.38 | 3.3% |
| Total long-term debt | 84.76 | 6.4% | 89.32 | 5.4% | 81.45 | -8.8% | 70.66 | -13.2% |
| Short-term debt | | | | | | | | |
| Other provisions | 17.37 | 18.6% | 19.84 | 14.2% | 20.59 | 3.8% | 21.26 | 3.3% |
| Trade payables | 21.73 | 25.6% | 24.81 | 14.2% | 25.75 | 3.8% | 26.59 | 3.3% |
| Financial debt | 15.73 | 2.6% | 1.74 | -88.9% | 0.00 | -100.0% | 0.00 | 0.0% |
| Tax liabilities | 0.07 | 43.5% | 0.08 | 14.2% | 0.08 | 3.8% | 0.08 | 3.3% |
| Other liabilities | 9.59 | 25.6% | 10.95 | 14.2% | 11.37 | 3.8% | 11.74 | 3.3% |
| Advance payments | 17.59 | 14.2% | 20.08 | 14.2% | 20.84 | 3.8% | 21.52 | 3.3% |
| Total short-term debt | 82.07 | 16.6% | 77.50 | -5.6% | 78.62 | 1.4% | 81.19 | 3.3% |
| Total Equity & Liabilities | 164.72 | 17.7% | 174.56 | 6.0% | 178.60 | 2.3% | 183.07 | 2.5% |

Source: Schaltbau, Solventis estimates

DCF Model Schaltbau

| (m €) | 2007 | 2008e | 2009e | 2010e | 2011e | 2012e | Terminal Value |
|---|--------------|---------|---------|---------|---------|---------|----------------|
| Sales | 232.1 | 265.0 | 275.0 | 284.0 | 293.0 | 302.0 | |
| % change | 9.1% | 14.2% | 3.8% | 3.3% | 3.2% | 3.1% | |
| EBITDA | 19.4 | 26.1 | 28.5 | 28.6 | 29.5 | 30.5 | |
| EBITDA margin | 8.3% | 9.9% | 10.4% | 10.1% | 10.1% | 10.1% | |
| EBIT | 14.1 | 20.7 | 22.8 | 22.7 | 23.4 | 24.2 | |
| EBIT margin | 6.1% | 7.8% | 8.3% | 8.0% | 8.0% | 8.0% | |
| NOPLAT | 11.5 | 15.5 | 17.1 | 17.0 | 17.6 | 18.1 | 18.6 |
| Reinvestment Rate | 113.2% | 50.6% | 16.6% | 19.9% | 23.8% | 21.9% | 21.6% |
| FCFF | -1.5 | 7.7 | 14.3 | 13.7 | 13.4 | 14.1 | 201.6 |
| WACC | 6.19% | 5.93% | 6.24% | 6.59% | 6.93% | 7.30% | 8.23% |
| Cumulative WACC | | 105.93% | 112.54% | 119.95% | 128.27% | 137.63% | 148.96% |
| Net present value FCFF | | 7.2 | 12.7 | 11.4 | 10.4 | 10.3 | 135.4 |
| Total net present value FCFF | 52.0 | | | | | | |
| Net present value Terminal Value | 135.4 | | | | | | |
| as % of enterprise value | 72.2% | | | | | | |
| Enterprise value | 187.4 | | | | | | |
| Net financial debt | 79.6 | | | | | | |
| Value of tax-loss carried forward | 0.0 | | | | | | |
| Minorities | 10.0 | | | | | | |
| Associates | 15.0 | | | | | | |
| Equity value | 112.7 | | | | | | |
| Value per share (€) | 60.32 | | | | | | |

Source: Solventis estimates

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Klaus Soer, Analyst

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Explanatory remarks on the recommendation system for equities:

- Buy: The stock is expected, in our estimation, to generate an absolute return of at least 10% during the next 12 months time horizon.
- Hold: The stock is expected, in our estimation, to show a price gain or a price loss not exceeding 10% during the next 12 months time horizon.
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- Neutral/balanced: In our estimation the assumed development will have no significant impact on the company.

Any ranking of the issuers indicates the relative strength of the impact which, in our estimation, the assumed development will have on the various issuers.

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The figures derived from the profit & loss statement, cash flow statement and balance sheet underlying the company's valuation are estimates as of a specific date and therefore harbour risks. They can change at any time without prior notice.

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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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