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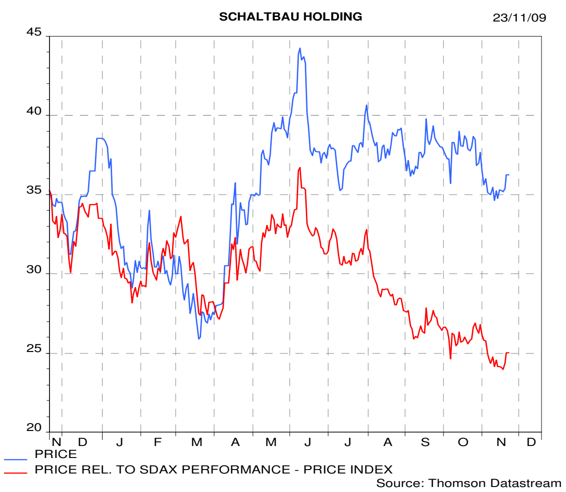
Schaltbau Holding AG

Slight earnings dip in 2010 due to preliminary expenditure – growth outlook from 2011 concretized

Buy (Buy)

Target price	**65.00 € (50.00 €)**
Price (20.11.2008)	36.25 €
ISIN	DE0007170300
Market capitalization (€ m)	67.75
No. of shares (million)	1.87
Website:	www.schaltbau.de

	2008	2009e	2010e	2011e
Sales (€ m)	280.20	270.00	270.00	307.00
EBIT (€ m)	21.85	21.60	17.55	21.49
EBIT margin	7.8%	8.0%	6.5%	7.0%
EBITDA (€ m)	27.82	28.79	25.96	31.12
EBITDA margin	9.9%	10.7%	9.6%	10.1%
EPS (€)	6.34	6.24	5.42	6.52
DPS (€)	0.50	0.50	0.50	0.60
BVPS (€)	4.61	10.34	15.26	21.19
PER	5.63	5.72	6.59	5.47
Price/book value	7.75	3.45	2.34	1.68
EV/EBIT	6.51	6.02	7.09	5.44
EV/EBITDA	5.12	4.52	4.80	3.76
EV/sales	0.51	0.48	0.46	0.38
Dividend yield	1.40%	1.40%	1.40%	1.68%



Schaltbau released the expected results for Q3/2009. The full-year forecast was confirmed. Owing to preliminary expenditure in preparation for a resumption of the growth trend a small dip in earnings is conceivable in 2010. Company strategy is to double earnings by the year 2015 through internal and external growth.

- Schaltbau posted an operating result of € 3.4m (-34.6%) on 12.4% lower sales of € 62.4m in the third quarter of 2009. The targets for the full-year 2009 were confirmed. We continue to expect sales to be slightly down versus last year at € 270m and more or less unchanged earnings per share of € 6.24.
- In FY2010 It should be possible to achieve the same sales level as this year thanks to the high order backlog (€ 170m as of September 30, 2009 = 63% of annual sales). In view of the preliminary expenditure for the growth phase planned from 2011 onwards we expect a decline of 17.2% in operating earnings to € 17.5m.
- Schaltbau aims to enter a new growth phase from 2011, with double-digit rates of sales growth targeted through to the year 2015. At the same time earnings are to be doubled. The growth is likely to be driven by the development of the international markets for rail technology and also by acquisitions.
- We have adjusted our DCF model to the changed growth outlook. From this we derive a fair value of € 65 for the Schaltbau share (previously € 50).
- The Schaltbau stock also looks undervalued by comparison with its peers and on the basis of traditional multiples.
- Our recommendation continues to be Buy with a price target of € 65 (previously € 50).

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Results for the first nine months of 2009 confirm positive expectations

Schaltbau's group sales were in line with our expectations at € 62.4m in the third quarter of 2009 (-12.4 yoy). Sales were down in all three business segments of Stationary Transportation Systems, Mobile Transportation Systems and Components. The group's operating result in the third quarter of 2009 was about one-third down from the record level in the same quarter last year at € 3.4m (-34.6%). The weak earnings performance is due primarily to cost progression as a result of the lower sales revenues.

Schaltbau Group: quarterly results in € million

	Q3/09e	change %	Q1-3/09	change %	Q4/09e	change %	2009e	change %	2010e	change %
Order intake	53.0	-26.8	193.4	-13.7	56.6	-47.8	250.0	-10.7		
Sales	62.4	-12.4	204.9	-3.0	65.1	-53.5	270.0	-3.6	270.0	0.0
EBIT	3.4	-34.6	14.8	-18.0	6.8	-24.4	21.6	-1.2	17.6	-18.8
EBIT margin %	*5.4*		*7.2*		*10.4*		*8.0*		*6.5*	
Group net income	1.7	-50.0	9.7	-22.7	3.8	-4.3	13.5	2.9	11.6	-13.6
Group net income after minorities	1.3	-59.4	8.3	-28.7	3.4	-1.5	11.7	-1.6	10.1	-13.1
EPS	0.70	-58.8	4.46	-28.1	1.80	-17.0	6.24	-1.6	5.4	-13.1

Source: Schaltbau, Solventis Research

Falloff in new orders in Q3/2009 – High order backlog

The falloff in new orders by 26.8% to € 53m in the third quarter of 2009 indicates that Schaltbau has not been able to escape the generally weaker economic development either. We assume that the weakening of the order situation will have continued especially in bus and train door systems and in crane braking systems for maritime applications.

Order backlog is still high despite the falloff in new orders. Orders on hand were reported to be worth € 170.1m as of September 30, 2009. That is equivalent to almost 63% of annualized 2009 sales. However, it needs to be borne in mind that a large part of the order backlog is made up of long-term contracts that will only generate sales in the following years.

Final spurt in the fourth quarter to deliver earnings guidance for the full year 2009

Schaltbau has confirmed its full-year forecast for sales and earnings for 2009. The expectations for 2009 imply a more dynamic performance in both sales (approx. € 65m) and operating earnings (approx. € 6.8m) in the fourth quarter of 2009 compared to the weak third quarter. The focus will be on executing orders that are already in hand, thus providing forecasting reliability.

Allowing for the improved business development compared to Q3 we estimate that for the full-year 2009 both sales (€ 270m, -3.6% yoy) and operating earnings (€ 21.6m, -1.2%) will almost match the previous year's levels again. That means the expectation of virtually unchanged earnings per share of € 6.24 (-1.5% yoy) after financing costs. The stable earnings performance can be considered a success given the weak development in important user industries addressed by Schaltbau.

More difficult FY 2010 – stable sales – temporary dip in earnings

As we had already predicted, it looks as if performance in FY 2010 will be mixed. In Mobile Transportation Systems an at least stable sales development is likely for all rail business-related order volumes. The continued high investment propensity in the international rail industry, supported by government economic stimulus programmes, is having a positive effect.

Slight sales downturns are likely in bus door systems and in business with crane braking systems owing to the only modest investment activity. We expect a continuation of the positive sales development from China business. Through its various activities there Schaltbau should also profit from infrastructure investment under local economic stimulus programmes.

Considering the high order backlogs Schaltbau's group sales should more or less match the 2009 level in 2010. A sales volume of that order would be a success for Schaltbau given that no signs of recovery are visible as yet in important user industries addressed by Schaltbau, such as commercial vehicles for instance.

We assume a drop of 19% in operating earnings to € 17.6m (previous estimate: € 18.6m). That would mean a decline of 1.5%-points in the EBIT margin to 6.5%. In the main, profitability will be reduced by preliminary expenditures and a high headcount, causing a break in the previous seven-year-long growth trend. The preliminary expenditures will allow a resumption of the growth trend from 2011 onwards. This is likely to be on the back of a general recovery of industrial activity and continued growth in the international rail industry.

Bottom line, we expect the earnings decline in 2010 to be smaller. Given low capital investment and continued high cash inflows there should be a further reduction in debt and thus in interest expense. We expect earnings per share after financing costs and taxes to be down 13% to € 5.40 (previously € 5.62).

Resumption of growth trend from 2011 onwards – doubling of earnings by 2015 targeted – internal and external growth

We are adjusting our long-term forecast through 2015 in light of Schaltbau's management guidance. We assume a resumption of the growth trend from 2011 and a doubling of earnings between 2010 and 2015. The growth will be driven by higher sales in the established segments and also by additional acquisitions. We expect both a geographical broadening of the business base and additions to the product portfolio in transportation components. It should be possible to finance the growth largely from own resources.

Schaltbau's present financing situation has improved. After the turnaround and positive equity position, gearing (net debt to equity) will sink to 328% in 2009 (2008: 878%). Relative to earnings, the ratio for net debt to EBITDA will improve from 2.7 (2008) to 2.2 (2009).

Although the financing situation has improved, we consider it conceivable that the growth might also be financed partly through capital market components. There is authorised capital of € 3.2m, or approximately 0.9 million shares, available for a capital increase. If fully exercised, that would be equivalent to about 48% of the company's present share capital. With this, it would be possible to generate fresh equity proceeds in the region of € 20m.

Fair value derived from DCF model raised

We have adjusted our DCF model to reflect the company's more dynamic development from 2011 onwards. The resulting fair value is € 65 per share (previously € 50 per share). The change is due above all to the stronger growth assumed from 2011 and an assumed sustainable EBIT margin of 7.0% (previously 6.5%). Potential equity capital measures were not taken into account in the DCF model.

Schaltbau favourably valued – high discount to fair value – growth potential currently not priced in

The Schaltbau share's current valuation is low despite the company's stable performance during the financial crisis. Schaltbau's valuation is well below the level of comparable industrial companies, especially on the basis of PER (2010e: 6.8). This ignores the resumption of the growth trend, with rising earnings, going forward. In this respect Schaltbau sets itself off positively from its peers.

We derive a fair value of € 65 from our DCF model, which is well above the current share price. The capital market has therefore not yet priced in the company's positive outlook.

The present still high discount reflects the market uncertainties in reaction to the company's weaker short-term earnings performance. These burdening factors should fade in the course of 2010.

Our recommendation for the Schaltbau share is therefore Buy with a price target of € 65 (previously € 50).

Schaltbau Group: peer group comparison

Company	Price 20.11.2009	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	64.12	Euro	33.6	13.7	14.1	7.9	8.2	11.3	12.3	7.9%	1.9	0.9
VOSSLOH AG	66.51	Euro	7.0	10.4	10.3	6.0	5.6	7.2	6.8	11.4%	1.8	0.8
MAN AG	59.55	Euro	7.1	37.2	22.1	12.9	9.8	23.8	15.7	3.7%	1.6	0.9
BOMBARDIER INC	4.50	U.S. Dollar	8.0	11.4	11.1	4.7	4.4	6.8	6.2	5.8%	2.2	0.4
Average (unweighted)			13.9	18.1	14.4	7.9	7.0	12.3	10.2	7.22%	1.9	0.8
MEDIAN			7.6	12.5	12.6	6.9	6.9	9.3	9.5	6.86%	1.9	0.9
SCHALTBAU HOLDING AG	36.25	Euro	5.7	5.8	6.7	4.6	4.8	6.1	7.2	8.00%	3.5	0.5
Deviation to MEDIAN			-24.4%	-53.7%	-46.9%	-34.3%	-29.9%	-34.6%	-25.0%	16.5%	85.7%	-45.1%

Source: Thomson Reuters, Solventis Research

Schaltbau Group: P&L in € million

	2008	yoy	2009e	yoy	2010e	yoy	2011e	yoy
Sales	**280.20**	**20.7%**	**270.00**	**-3.6%**	**270.00**	**0.0%**	**307.00**	**13.7%**
Unfinished goods	1.28	-55.8%	1.23	-3.6%	1.23	0.0%	1.40	13.7%
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%	3.64	-13.2%	4.13	13.5%	4.41	6.7%
Cost of goods	150.94	22.2%	145.45	-3.6%	145.45	0.0%	165.38	13.7%
Gross profit	**135.61**	**17.1%**	**129.94**	**-4.2%**	**130.43**	**0.4%**	**147.95**	**13.4%**
Personnel expenses	79.36	6.1%	76.47	-3.6%	76.47	0.0%	86.95	13.7%
Depreciation	5.97	13.6%	7.19	20.4%	8.41	17.0%	9.63	14.5%
Other operating expenses	28.43	30.9%	24.69	-13.2%	28.01	13.5%	29.88	6.7%
Ebit (prerestruct. charges)	21.85	55.0%	21.60	-1.2%	17.55	-18.8%	21.49	22.5%
Ebit margin (prerestruct. charges)	7.80%	1.7 pp	8.00%	0.2 pp	6.50%	-1.5 pp	7.00%	0.5 pp
Ebitda	27.82	43.8%	28.79	3.5%	25.96	-9.8%	31.12	19.9%
Ebitda margin	9.93%	1.6 pp	10.66%	0.7 pp	9.61%	-1.0 pp	10.14%	0.5 pp
Ebit	**21.85**	**55.0%**	**21.60**	**-1.2%**	**17.55**	**-18.8%**	**21.49**	**22.5%**
Ebit margin	**7.80%**	**1.7 pp**	**8.00%**	**0.2 pp**	**6.50%**	**-1.5 pp**	**7.00%**	**0.5 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	10.4%	0.26	9.4%	0.27	3.4%
Interest expense	6.59	12.9%	5.75	-12.7%	3.95	-31.3%	4.57	15.7%
Financial result	-6.05	48.9%	-5.19	-14.2%	-3.37	-35.1%	-3.98	18.2%
Earnings before taxes (EBT)	**15.80**	**57.5%**	**16.41**	**3.8%**	**14.18**	**-13.6%**	**17.51**	**23.4%**
EBT margin	5.64%	1.3 pp	6.08%	0.4 pp	5.25%	-0.8 pp	5.70%	0.5 pp
Taxes	2.73	46.2%	2.95	8.1%	2.55	-13.6%	3.50	37.2%
Tax rate	17.29%	-1.3 pp	18.00%	0.7 pp	18.00%	0.0 pp	20.00%	2.0 pp
Earnings after taxes (EAT)	**13.07**	**60.1%**	**13.46**	**2.9%**	**11.63**	**-13.6%**	**14.00**	**20.5%**
Minorities	1.23	27.1%	1.80	46.5%	1.50	-16.7%	1.81	20.5%
Group net Net income	**11.84**	**64.5%**	**11.66**	**-1.6%**	**10.13**	**-13.1%**	**12.20**	**20.5%**
No. of shares on 17/11/2009 (mill.)	1.87	0.0%	1.87	0.0%	1.87	0.0%	1.87	0.0%
Earnings per share (€)	**6.34**	**64.5%**	**6.24**	**-1.6%**	**5.42**	**-13.1%**	**6.53**	**20.5%**

Source: Schaltbau, Solventis Research

Schaltbau Group: balance sheet in € million

	2008	yoy	2009e	yoy	2010e	yoy	2011e	yoy
Assets								
Cash and cash equivalents	5.33	-32.4%	8.10	52.0%	8.10	0.0%	9.21	13.7%
Accounts receivables	33.24	-1.6%	32.03	-3.6%	32.03	0.0%	36.42	13.7%
Inventories	53.34	14.9%	51.40	-3.6%	51.40	0.0%	58.45	13.7%
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%**	**98.26**	**-0.4%**	**98.26**	**0.0%**	**110.80**	**12.8%**
Fixed assets	40.27	-0.2%	39.08	-2.9%	42.68	9.2%	45.05	5.6%
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%**	**68.29**	**-1.7%**	**71.89**	**5.3%**	**74.26**	**3.3%**
Total assets	**168.12**	**2.1%**	**166.55**	**-0.9%**	**170.15**	**2.2%**	**185.06**	**8.8%**
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%	-13.19	-44.8%	-3.99	-69.7%	7.08	-277.4%
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%**	**16.94**	**172.5%**	**26.13**	**54.3%**	**37.20**	**42.4%**
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%**	**19.33**	**124.5%**	**28.53**	**47.6%**	**39.60**	**38.8%**
					23.93		34.06	
Long-term debt								
Pension provisions	18.99	-0.8%	18.30	-3.6%	18.30	0.0%	20.80	13.7%
Other provisions	5.09	-12.4%	4.90	-3.6%	4.90	0.0%	5.57	13.7%
Financial liabilities	48.52	-7.9%	48.52	0.0%	47.59	-1.9%	38.55	-19.0%
Tax liabilities	6.28	4.2%	6.05	-3.6%	6.05	0.0%	6.88	13.7%
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%**	**77.77**	**-1.4%**	**76.84**	**-1.2%**	**71.81**	**-6.5%**
Short-term debt								
Other provisions	19.49	12.2%	18.78	-3.6%	18.78	0.0%	21.35	13.7%
Trade payables	19.83	-8.7%	19.11	-3.6%	19.11	0.0%	21.73	13.7%
Financial debt	13.42	-14.7%	4.68	-65.1%	0.00	-100.0%	0.00	0.0%
Tax liabilities	0.15	130.3%	0.15	-3.6%	0.15	0.0%	0.17	13.7%
Other liabilities	13.16	37.2%	12.68	-3.6%	12.68	0.0%	14.42	13.7%
Advance payments	14.59	-17.0%	14.06	-3.6%	14.06	0.0%	15.99	13.7%
Total short-term debt	**80.63**	**-1.7%**	**69.45**	**-13.9%**	**64.77**	**-6.7%**	**73.65**	**13.7%**
Total Equity & Liabilities	**168.11**	**2.1%**	**166.54**	**-0.9%**	**170.14**	**2.2%**	**185.06**	**8.8%**

Source: Schaltbau, Solventis Research

Schaltbau Group: DCF model

(€ m)	2008	2009e	2010e	2011e	2012e	2013e	2014e	Terminal Value
Sales	280.2	270.0	270.0	307.0	349.0	391.0	435.0	
% change	20.7%	-3.6%	0.0%	13.7%	13.7%	12.0%	11.3%	
EBITDA	27.8	28.8	26.0	31.1	35.3	40.3	44.2	
EBITDA margin	9.9%	10.7%	9.6%	10.1%	10.1%	10.3%	10.2%	
EBIT	21.9	21.6	17.6	21.5	24.4	28.3	30.9	
EBIT margin	7.8%	8.0%	6.5%	7.0%	7.0%	7.2%	7.1%	
NOPLAT	18.1	17.7	14.4	17.2	19.5	21.8	23.6	23.4
Reinvestment Rate	58.6%	-20.4%	25.0%	65.1%	62.2%	54.7%	51.8%	20.9%
FCFF	7.5	21.3	10.8	6.0	7.4	9.9	11.3	231.0
WACC	6.53%	6.75%	6.96%	7.14%	7.46%	7.71%	8.14%	8.50%
Cumulative WACC		106.75%	114.19%	122.33%	131.47%	141.60%	153.13%	166.15%
Net present value FCFF		20.0	9.5	4.9	5.6	7.0	7.4	139.0
Total net present value FCFF	**54.3**							
Net present value Terminal Value	**139.0**							
as % of enterprise value	71.9%							
Enterprise value	**193.4**							
Net financial debt	75.6							
Value of tax-loss carried forward	0.0							
Minorities	10.0							
Associates	15.0							
Equity value	**122.8**							
Value per share (€)	**65.70**							

Source: Solventis Research

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b) Author

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.
- Sell: The stock is expected, in our estimation, to show an absolute price loss of at least 10% during the next 12 months time horizon.

Explanatory remarks on trend statements – theme-based studies:

- Opportunities/winner/positive: In our estimation the company will profit from the assumed development.
- Threats/loser/negative: In our estimation the company will be adversely affected by the assumed development.
- 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.

6. Sensitivity of the valuation parameters
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.

Irrespective of the method of valuation used, there is a significant risk that the target price/trend may not be achieved within the expected time frame. The risks include unforeseen changes in respect of competitive pressure, demand for the products of an issuer or the availability of essential materials required for production, or that the assumed development may not materialize. Such fluctuations can arise as a result of changes of a technological nature, changes in the macroeconomic environment, changes in the legal framework and changes in exchange rates. This discussion of valuation methods and risk factors does not claim to be exhaustive.

7. Principal sources of information
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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