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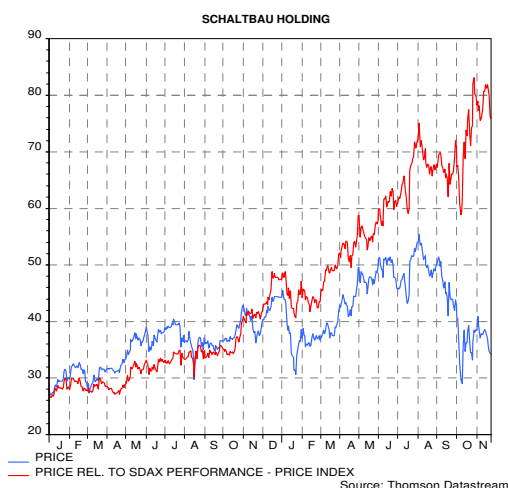
Schaltbau Holding AG

Excellent Q3 2008 results – Earnings stabilization expected in 2009

Buy (Buy)

Target price	50 € (60 €)
Price (23.11.2008)	34.50 €
ISIN	DE0007170300
Market capitalization (€ million)	64.48
No. of shares (million)	1.87
Website:	www.schaltbau.de

	2007	2008e	2009e	2010e
Sales (€m)	232.06	280.00	286.00	290.00
EBIT (€m)	14.10	19.60	19.73	21.75
EBIT margin	6.1%	7.0%	6.9%	7.5%
EBITDA (€m)	19.35	25.15	25.57	27.88
EBITDA margin	8.3%	9.0%	8.9%	9.6%
Earnings per share (€)	3.85	6.15	6.19	6.93
Dividend per share (€)	0.30	0.60	0.80	1.00
Book value per share (€)-1.13	4.90	10.29	16.22	
PER	10.01	5.61	5.57	4.98
Price/book value	-34.16	7.05	3.53	2.13
EV/EBIT	10.76	6.80	6.25	5.20
EV/EBITDA	7.84	5.30	4.83	4.06
EV/sales	0.65	0.48	0.43	0.39
Dividend yield	0.78%	1.74%	2.32%	2.90%



Schaltbau presented excellent results for the third quarter of 2008. The targets for the full year 2008 were already reached after nine months. However, the 7.3% drop in new orders in the third quarter already augurs a more difficult year in 2009. We assume that earnings will stagnate.

- Schaltbau achieved a record operating profit of € 5.2m (+62.5%) on sales of € 71.2m (+22.3%) in the third quarter of 2008. The targets for the full year 2008 were already reached after nine months with earnings per share of € 6.20 (+96.2%).
- The driving factor behind the strong profitability improvement was the successful integration of the Bubenzer acquisition and a good business development at Bode (bus and train door systems).
- We have updated our estimates for the full year 2008 on the basis of the company's guidance. We now expect operating earnings of € 19.6m (previously € 20.6m) and earnings per share of € 6.15 (previously € 5.87).
- Allowing for a downturn in important Schaltbau user industries we now no longer expect earnings to grow in 2009. We have reduced our estimate for operating earnings to € 19m (previously € 23m), and thus expect them to remain static.
- The Schaltbau stock's valuation is low on historical comparison. The stock is trading well below the level of its peers especially in terms of PER. The fair value derived from our DCF model (€ 50 per share) is still above the current share price and supports our fundamentally positive view of the stock.
- We maintain our Buy recommendation with a target price of € 50 (previously € 60).

Results in the first nine months of 2008 confirm positive expectations

Schaltbau's group sales in the third quarter of 2008 were in line with our expectations at € 71.2m (+22.3% yoy). Strong earnings improvements were achieved both in Stationary Transportation Systems as well as in Mobile Transportation Systems with door systems for buses and trains.

As in the preceding quarters, group operating earnings were well up year-on-year at € 5.2m (+62.5%) in the third quarter of 2008. Owing to seasonal fluctuations the record level in the second quarter (€ 7.2m) was not matched.

The above-average earnings growth, and thus margin improvement, continued to be attributable to the Schaltbau group's streamlined cost structure. This development was supported by the already early adjustment of headcount to the changing market environment, especially in bus and train door systems.

With operating earnings of € 18.1m (+71.9%) and earnings per share of € 6.20 after nine months of 2008 Schaltbau already largely achieved its targets for the full year 2008 in the first three quarters

Schaltbau: Quarterly Results

	H1/08	change %	Q3/08	change %	Q1-3/08	change %
Order intake	151.6	15.6	72.4	-7.3	224.0	7.1
Order backlog	192.0	27.2	193.7	6.0	193.7	613.4
Sales	140.1	27.8	71.2	22.3	211.3	25.9
EBIT	12.9	76.1	5.2	62.5	18.1	71.9
<i>EBIT margin %</i>	9.2		7.3		8.5	
Group net income	9.1	86.7	3.4	78.9	12.5	84.5
Group net income after minorities	8.4	110.9	3.2	68.4	11.6	97.2
EPS	4.19	94.9	1.69	67.3	6.20	96.2

Source: Schaltbau AG

Weakening order intake in Q3/2008 – order backlog at a record level

The falloff in new orders in the third quarter of 2008 by 7.3% to € 72.4m suggests that Schaltbau, too, cannot escape the generally weaker economic development. We expect the order situation to slacken, especially in the bus and train door systems business. At the same time, it is also possible that investments in international port infrastructure might be stretched out over a longer period. This could hurt Schaltbau's crane braking systems business.

Despite the declining new order numbers order backlog is still at a very high level, with a figure of € 193.7m reported as of September 30, 2008. This is equivalent to almost 70% of estimated 2008 sales. However, it needs to be borne in mind that a large part of the order cushion consists of long-term orders that will only generate revenues in the next years.

Secure earnings outlook for the full year 2008

Schaltbau has again upped its forecast for sales and earnings for the full year 2008. Assuming lower financing costs among other things, the upgraded earnings forecast for 2008 is still slightly above the previous Solventis estimates.

Schaltbau: Change in Earnings Estimate for 2008

2008e	Solventis Estimate (previous)	New Schaltbau Guidance
Sales	265.0	280.0
EBIT	20.7	19.7
EPS	5.87	6.20

Source: Schaltbau AG, Solventis estimates

In view of the earnings numbers already reached at the end of the third quarter of 2008 the new guidance can still be considered very conservative. It implies operating earnings of only € 1.6m in the fourth quarter of 2008, while a balanced result is assumed for earnings per share. We believe these assumptions are very conservative. In our estimation, it is possible that there will be a moderate – but not drastic – weakening of the company's earnings momentum. This allows for the Schaltbau management's decision to make sufficient provision for potential defaults by customers and possible insolvencies among suppliers. Given the poor visibility we have based our new earnings estimate on the company's guidance.

FY 2009 will be a more difficult year – earnings expected to be stable at a high level

There are indications that the company will see a mixed development in FY 2009. Considering the high order backlogs, sales should grow again slightly by about 2% to € 286m. A sales volume of that order would be a success for Schaltbau as there are signs of a fairly strong downturn in important user industries such as commercial vehicles. The generally positive expectations in the international rail industry should also have a stabilizing effect on some of Schaltbau's businesses on the back of continued buoyant investment activity.

All in all, in our new estimate we no longer assume earnings growth at Schaltbau in 2009. We expect stable operating earnings of a good € 19m (previously € 23m). After financing costs and taxes, this gives estimated earnings per share of € 6.19 (previously € 6.57). An improvement in profitability, which we had previously assumed, no longer appears realistic in our view.

Schaltbau cheap on historical comparison

The Schaltbau stock's valuation is currently low on historical comparison. Schaltbau is trading well below the level of comparable industrial companies especially in terms of PER (2009e: 5.5). This does not take account of the, by comparison, more stable earnings outlook for 2009. While earnings setbacks are probably inevitable at many companies, Schaltbau should see a sustained high level of earnings.

The fair value of € 50 derived from our DCF model is well above the current share price. The high discount reflects the increased market uncertainties against the backdrop of the global credit/financial market crisis and the recessionary trends. These burdens should ease in the course of 2009. The price of the Schaltbau stock should also profit from that, especially as Schaltbau should show a comparatively stable earnings performance.

We therefore maintain our Buy recommendation for the Schaltbau share with a target price of € 50 (previously € 60).

Schaltbau Group: P&L

	2007	yoy	2008e	yoy	2009e	yoy	2010e	yoy
Sales	232.06	9.1%	280.00	20.7%	286.00	2.1%	290.00	1.4%
Unfinished goods	2.90	-6.0%	3.49	20.7%	3.57	2.1%	3.62	1.4%
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%	3.41	5.3%	3.50	2.7%	3.20	-8.4%
Cost of goods	123.54	12.0%	149.06	20.7%	152.25	2.1%	154.38	1.4%
Gross profit	115.85	7.1%	138.24	19.3%	141.21	2.2%	142.84	1.2%
Personnel expenses	74.77	4.0%	90.22	20.7%	92.15	2.1%	93.44	1.4%
Depreciation	5.26	4.4%	5.55	5.5%	5.84	5.2%	6.13	5.0%
Other operating expenses	21.72	11.6%	22.87	5.3%	23.49	2.7%	21.52	-8.4%
Ebit (prerestruct. charges)	14.10	19.5%	19.60	39.0%	19.73	0.7%	21.75	10.2%
Ebit margin (prerestruct. charges)	6.07%	0.5 pp	7.00%	0.9 pp	6.90%	-0.1 pp	7.50%	0.6 pp
Ebitda	19.35	15.0%	25.15	29.9%	25.57	1.7%	27.88	9.0%
Ebitda margin	8.34%	0.4 pp	8.98%	0.6 pp	8.94%	-0.0 pp	9.61%	0.7 pp
Ebit	14.10	19.5%	19.60	39.0%	19.73	0.7%	21.75	10.2%
Ebit margin	6.07%	0.5 pp	7.00%	0.9 pp	6.90%	-0.1 pp	7.50%	0.6 pp
Earnings minorities	1.52	39.5%	1.52	0.0%	1.52	0.0%	1.52	0.0%
Abschreibungen auf Finanzanlagen	0.00	n.m.	0.00	0.0%	0.00	0.0%	0.00	0.0%
Interest income	0.25	226.0%	0.25	-2.1%	0.24	-1.7%	0.24	0.8%
Interest expense	5.84	33.6%	4.55	-22.0%	4.60	1.1%	4.60	0.0%
Financial result	-4.06	27.0%	-2.78	-31.5%	-2.84	1.9%	-2.84	-0.1%
außerordentliches Ergebnis	0.00	0.0%	0.00	0.0%	0.00	0.0%	0.00	0.0%
Earnings before taxes (EBT)	10.03	16.7%	16.82	67.6%	16.90	0.5%	18.91	11.9%
EBT margin	4.32%	0.3 pp	6.01%	1.7 pp	5.91%	-0.1 pp	6.52%	0.6 pp
Taxes	1.87	-27.2%	4.20	124.9%	4.22	0.5%	4.73	11.9%
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%	12.61	54.5%	12.67	0.5%	14.19	11.9%
Minorities	0.97	-8.1%	1.03	6.5%	1.10	6.8%	1.23	11.9%
Group net Net income	7.20	44.6%	11.58	60.9%	11.57	-0.1%	12.95	11.9%
No. of shares on 23/11/2008 (mill.)	1.87	0.0%	1.87	0.0%	1.87	0.0%	1.87	0.0%
Earnings per share	3.85	44.6%	6.20	60.9%	6.19	-0.1%	6.93	11.9%

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%	7.19	-8.8%	7.35	2.1%	7.45	1.4%
Accounts receivables	33.78	19.5%	40.76	20.7%	41.64	2.1%	42.22	1.4%
Inventories	46.41	9.7%	55.99	20.7%	57.19	2.1%	57.99	1.4%
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%	111.72	16.6%	113.94	2.0%	115.43	1.3%
Fixed assets	40.35	8.7%	39.80	-1.4%	39.97	0.4%	40.84	2.2%
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%	0.80	n.m.	0.80	0.0%	0.80	0.0%
Total fixed assets	68.89	16.1%	69.14	0.4%	69.30	0.2%	70.18	1.3%
Total assets	164.73	17.7%	180.86	9.8%	183.25	1.3%	185.60	1.3%
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%	-19.14	-35.3%	-9.06	-52.6%	2.02	-122.3%
Accumulated other comprehensive income	10.24	33.8%	11.04	7.8%	11.04	0.0%	11.04	0.0%
Shareholder's equity	-4.19	-65.9%	7.07	-268.8%	17.15	142.5%	28.23	64.6%
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%	9.15	-533.7%	19.23	110.1%	30.31	57.7%
Long-term debt								
Pension provisions	19.14	-0.9%	23.10	20.7%	23.59	2.1%	23.92	1.4%
Other provisions	5.80	-23.8%	7.00	20.7%	7.15	2.1%	7.25	1.4%
Financial liabilities	52.65	18.3%	52.65	0.0%	42.68	-18.9%	32.25	-24.4%
Tax liabilities	6.03	-19.0%	7.28	20.7%	7.43	2.1%	7.54	1.4%
Other debt	1.13	42.5%	1.36	20.7%	1.39	2.1%	1.41	1.4%
Total long-term debt	84.76	6.4%	91.39	7.8%	82.25	-10.0%	72.38	-12.0%
Short-term debt								
Other provisions	17.37	18.6%	20.96	20.7%	21.41	2.1%	21.71	1.4%
Trade payables	21.73	25.6%	26.21	20.7%	26.78	2.1%	27.15	1.4%
Financial debt	15.73	2.6%	0.26	-98.4%	0.00	-100.0%	0.00	0.0%
Tax liabilities	0.07	43.5%	0.08	20.7%	0.08	2.1%	0.08	1.4%
Other liabilities	9.59	25.6%	11.57	20.7%	11.82	2.1%	11.99	1.4%
Advance payments	17.59	14.2%	21.22	20.7%	21.68	2.1%	21.98	1.4%
Total short-term debt	82.07	16.6%	80.30	-2.1%	81.76	1.8%	82.90	1.4%
Total Equity & Liabilities	164.72	17.7%	180.85	9.8%	183.24	1.3%	185.59	1.3%

Source: Schaltbau, Solventis estimates

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