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Schaltbau Holding AG

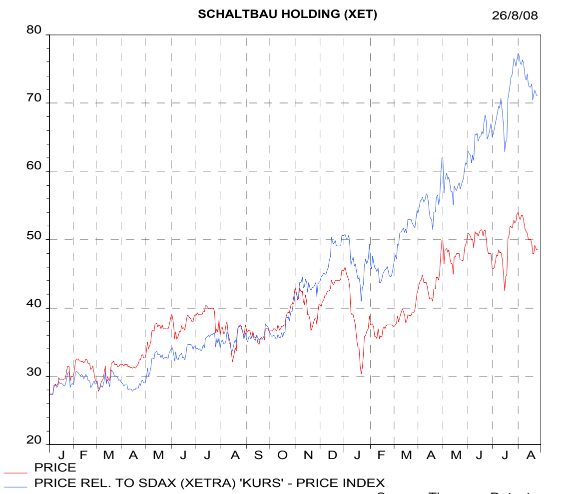
Earnings momentum accelerates in Q2/08 – Bode restructuring bears fruit – Successful integration of Bubenzer

Buy (Buy)

Target price	**€ 60.00**
Price (26.8.2008)	€ 48.71
ISIN	DE0007170300
Market capitalization (€ million)	91.04
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	12.65	8.29	7.41	6.26
Price/book value	-43.15	11.76	4.91	2.92
EV/EBIT	12.11	7.76	6.57	6.10
EV/EBITDA	8.82	6.14	5.27	4.84
EV/sales	0.74	0.61	0.55	0.49
Dividend yield	0.62%	1.23%	1.64%	2.05%

*Potential dilution from exercise of convertible bond not taken into account.



Source: Thomson Datastream

Schaltbau accelerated its earnings momentum in the second quarter of 2008. Results were more than doubled year on year. The successful restructuring of Bode especially is bearing fruit. Given the high order backlog the outlook for Schaltbau is positive. Schaltbau's market value is low and does not reflect the company's fair value.

- New records were reached in the second quarter of 2008 with sales of € 75.0m (+38.4%) and operating earnings of € 7.4m (+123.5%). The driving factor was the successful integration of the Bubenzer acquisition and the good business development at Bode (bus and train door systems).
- After raising our estimates in July we maintain our full-year forecasts of growth of 52.5% in net earnings and EPS of € 5.87 for 2008.
- In light of the high order backlog Schaltbau looks set for further sales growth in 2009. Its profitability should continue to improve even if the dynamic weakens.
- The Schaltbau stock is trading well below its fair value. With a PER of 7.4 and an EV/EBIT multiple of 6.6 based on estimated 2009 earnings the market has not yet priced in Schaltbau's potential.
- We confirm our buy recommendation and our price target of € 60. This implies upside potential of at least 23%.

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Earnings momentum accelerates in the second quarter of 2008

Supported by the first-time consolidation of the Bubenzer acquisition, Schaltbau's group sales in the second quarter were up 38.4% year on year at € 75.0m (adjusted: approx. +10%). Operating earnings reached a new record level of € 7.4m (+123.5%). Schaltbau's group EBIT margin improved to 9.8% (Q2 2007: 6.1%). Allowing for the higher financing costs (Bubenzer acquisition) and a lower effective tax rate of only 11.9% net earnings before minority interests came to € 5.6m in the second quarter of 2008 (+125.8% yoy). At the quarterly level this corresponds to earnings per share (fully diluted) of € 2.51.

Schaltbau: Quarterly Results

	Q1/07	Q2/07	H1/07	Q1/08	change %	Q2/08	change %	H1/08	change %
Order intake	65.7	65.4	131.1	82.5	25.6	69.1	5.7	151.6	15.6
Order intake (adj.)			131.1					134.9	2.9
Order backlog	139.6	151.0	151.0	198.3	42.0	192.0	27.2	192.0	27.2
Sales	55.4	54.2	109.6	65.1	17.5	75.0	38.4	140.1	27.8
Sales (adj.)* e								120.9	10.3
EBIT	4.0	3.3	7.3	5.5	37.5	7.4	123.5	12.9	76.1
EBIT margin %	*7.2*	*6.1*	*6.7*	*8.4*		*9.8*		*9.2*	
Group net income	2.4	2.5	4.9	3.5	45.8	5.6	125.3	9.1	86.7
Group net income after minorities	1.8	2.2	4.0	3.1	72.2	5.3	141.0	8.4	110.9
EPS	0.94	1.21	2.15	1.68	78.7	2.51	107.4	4.19	94.9

*Adjusted for first-time consolidation of crane braking systems

Source: Schaltbau

New record result in the offing for the full year 2008

Our sales forecast for the full year 2008 is unchanged at growth of 14% to € 265m. We continue to expect operating earnings of € 20.7m (+46.6%). After financing costs and taxes (normalized effective tax rate of 25%) this implies earnings per share of € 5.87 (+52.5% yoy). With this estimate our expectations are above those of Schaltbau's management (earnings per share in the region of € 5.50-5.70).

In our estimation, the company's present guidance allows for too strong a slowdown in the company's growth and a stronger weakening of earnings in the second half of the year. Even allowing for the fact that August and December tend to be weaker months for Schaltbau and assuming that the Asian subsidiaries, too, generate the bulk of their earnings in the first half year, it is still difficult to see why operating earnings should be almost 40% lower in the second half than in the first half. We therefore feel the company will probably raise its guidance once again in the course of the second half of 2008. The new acquisition, Machine Electrics of Great Britain, could also contribute towards higher sales. The company, which was acquired with retroactive effect as of the beginning of 2008, achieved sales of € 5.9m in 2007 (equivalent to approx. 2.2% of group sales). The acquisition should have a neutral effect on earnings in 2008.

Outlook: Positive earnings trend to continue in 2009 – profitability set to improve further

Volumes will pick up slightly in both of the company's two segments in 2009 as Schaltbau is profiting across its various product lines from the growth in investment in international transport infrastructure. Schaltbau's profitability will continue to improve following Bubenzer's full integration and given the high level of capacity utilization in bus and train door systems. We expect the EBIT margin to improve to 8.3%. All in all, assuming sales growth of 3.7% to € 275m, we see operating earnings rising by a further 10% to around € 23m. Our estimate of earnings per share of € 6.57 does not yet allow for possible dilution from the exercise of conversion rights attaching to the convertible bond. Assuming that 50% of the rights are exercised, the dilution effect would be about € 0.22 per share.

Valuation gap likely to close within the next 12 months

Trading at a PER of 7.4 and an EV/EBIT multiple of 6.6 based on estimated earnings for 2009 the Schaltbau stock's valuation is low. This view is also supported by the DCF model, which produces a fair value of about € 60 per share. We assume that the valuation gap can close within the next 12 months, also as the company demonstrates its sustainable earnings growth. The improving financing situation, with a stronger equity base, should then also move more to the fore in valuation considerations.

Based on our present assumptions the target price for the Schaltbau stock is € 60 (upside potential of at least 23%). We confirm our buy recommendation.

Peer Group Table

Company	Price 25/08/2008	Currency	PER 2007	PER 2008e	PER 2009e	EV/EBITDA 2008e	EV/EBITDA 2009e	EV/EBIT 2008e	EV/EBIT 2009e	Ebit Margin 2008e	Price/ Book Value 2008e	Price/ Book Value 2009e	EV/Sales 2008e	EV/Sales 2009e
FUNKWERK AG	9.53	Euro	11.9	10.2	7.1	2.7	2.2	6.1	4.2	3.9%	0.6	0.6	0.2	0.2
VOSSLOH AG	85.15	Euro	18.1	12.8	13.3	7.9	7.4	9.7	9.0	11.4%	2.6	2.3	1.1	1.1
DELACHAUX S.A	72.50	Euro	17.8	15.7	14.5	9.9	9.1	10.9	10.1	12.7%	2.4	2.1	1.4	1.3
FAIVELEY	54.72	Euro	18.9	16.0	14.5	6.0	5.1	6.9	5.9	13.0%	3.5	3.0	0.9	0.8
ANSALDO STS SPA	10.44	Euro	18.0	16.5	14.9	7.2	6.2	7.9	6.8	10.7%	4.8	3.9	0.8	0.8
Average (unweighted)			16.9	14.2	12.9	6.8	6.0	8.3	7.2	10.33%	2.7	2.4	0.9	0.8
MEDIAN			18.0	15.7	14.5	7.2	6.2	7.9	6.8	11.41%	2.6	2.3	0.9	0.8
SCHALTBAU HOLDING AG	47.82	Euro	12.6	8.3	7.4	6.1	5.3	7.8	6.6	7.80%	11.7	4.9	0.6	0.5
Deviation to MEDIAN			-30.1%	-47.5%	-49.1%	-14.4%	-15.6%	-2.2%	-3.0%	-31.7%	357.7%	112.5%	-33.3%	-35.3%

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%
Inventury 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 profit	**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 26/08/2008 (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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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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