

Schaltbau Holding AG

Q3/07 meets positive expectations – additional growth for 2008 – target increased

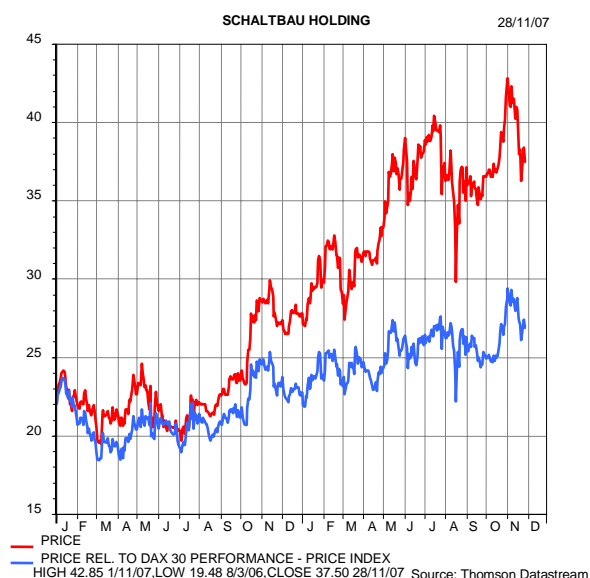
Buy (Buy)

Target price	43 € (41 €)
Price (28.11.2007)	38.45 €
ISIN	DE0007170300
Market capitalization (€ million)	71.9
No. of shares (million)	1.9
Website:	www.schaltbau.de

	2006	2007e	2008e	2009e
Sales (€m)	212.7	230.3	255.3	265.3
EBIT (€m)	11.8	14.5	17.3	18.5
EBIT margin (%)	5.5	6.3	6.8	7.0
EBITDA (€m)	16.8	20.6	23.4	25.2
Earnings per share (€)	2.67	3.87	4.90	5.46
Dividend per share (€)	0.15	0.20	0.25	0.35
Book value per share (€)	-5.4	-0.9	4.4	10.1
PER	14.4	9.9	7.9	7.0
EV/EBIT	12.4	10.9	9.3	8.7
EV/EBITDA	8.7	7.7	6.9	6.4
EV/sales	0.7	0.6	0.6	0.6
Dividend yield (%)	0.4	0.5	0.7	0.9

Third quarter 07 results confirm the positive development at Schaltbau. The strong order intake and backlog ensure further growth for 2008.

- First-time consolidation of Bubenzer led to a sales increase of 10% to 58.2 m € in Q3. In-line operating results were 3.2 m €, up 9.2%.
- We estimate for full year 2007 an unchanged increase in operating results to 14.5 m € (+23%).
- Order backlog is more than 50% above last year's level; we estimate the positive earnings development to continue in 2008. In our opinion operating earnings should again increase by some 20%. We expect the acquisition of Bubenzer will positively contribute to group earnings for the first time.
- At a PER of 7.8 and EV/EBIT of 9.3 for 2008 the Schaltbau share is undervalued and in our opinion the market is not pricing in the full share price potential.
- With confirmation of a positive development for 2008 and beyond we have made some adjustments to our DCF model. We now estimate a fair value per share of 43 € (prev. 41 €). Main drivers for this are the first-time consolidation of Bubenzer and the lasting increased levels of profitability.
- We increase our share price target to 43 € (prev. 41). We continue to recommend the shares as a buy.



Please note our disclaimer on page 8.

Results from 1-9 months 2007 confirm our positive expectations

Third quarter sales at the Schaltbau group met our expectations at 58.2 m € (+10% yoy). For the first time the Bubenzer sales (industrial brakes) of 5.7 m € were consolidated. When we adjust out Bubenzer sales the group sales reached the already high level of the previous year. Whereas Schaltbau sales of stationary traffic systems partially grew double-digit, sales of the mobile traffic systems (mainly door systems for buses and trains) were below last year's level.

Operating earnings at the group in Q3 came in at 3.2 m € (+9.2%) and was in line with our expectations. Due to a base effect operating earnings growth weakened a bit. After 1-9 months however the increase of 20% to 10.5 m. € was in line with our view. Especially the area of stationary traffic systems having high margins contributed to this development. The Chinese joint venture has been a strong contributor to the good margin expansion in the course of the year.

High order intake – 2007 full year outlook quite evident

Meaningful for the 2007 full year outlook is the unchanged good progress of the order intake, up 37.7% in Q3 (yoy). The increase was 24% when one adjusts out the Bubenzer consolidation. Growth resulted in particular from the mobile traffic technology area with door systems for trains. Two large orders for train door systems (Swiss train operator and the Spanish high-speed train) led to highest order intake in the area on a quarterly basis since 2001.

The order backlog after 1-9 months is 182.8 m € (+50% vs. 2006 comparable period).

At this point in time the outlook for 2007 is evident. We estimate sales of 230.3 m € (+8.3%), operating earnings of 14.5 m €. (+23%) and net earnings (after minorities) of 7.2 m € (+45%). Due to the acquisition of Bubenzer finance expenses will be up slightly to 4.5 m €. We estimate a tax rate of 25% (30%). Our EPS estimate is unchanged at 3.87 €.

Notwithstanding the very high order intake (orders mainly to be processed and billed next year) we leave our earnings expectations unchanged.

Convertible bond secures advantageous financing and potential strengthening of the still weak shareholder's equity position

Schaltbau issued a convertible bond in Q3 07 in the amount of 8.5 m €. The convertible provided a basis to finance the Bubenzer acquisition as well as high working capital. With duration of 5 years and a yield of 4.75%, Schaltbau secured itself attractive financing terms. The conversion price for the bond is 46 € per share. In the case of a strong performance of the Schaltbau share and a resulting full conversion of the convertible bond into equity, the shareholder's equity would increase by 8.5 m. In light of the current negative group shareholder's equity (30 Sept: -3.5 m €), the full conversion would improve the equity situation considerably.

Group shareholder's equity in Q3 improved to -3.5 m € mainly through the retention of earnings of 6.5 m € (per 30 Sept.2007). Taking into consideration the positive earnings situation and further retention of earnings for the full year 2007 we expect, beginning 2008, a positive equity ratio again on the group level. The Bubenzer acquisition and higher working capital are the reasons for the higher net debt (+12.16 m € yoy.) at the end of Q3. Net debt in relation to EBITDA however was at 4.2 for the period and was less than 2006 at 4.4. The improved earnings and positive equity ratio will further improve respective financial ratios in our opinion.

All business units will contribute to earnings growth 2008 – impetus through international business

On the back of the high order backlog (30 Sept: 183 m €, +50%) we expect a favourable business development in 2008. We expect the drivers to be both business units. The high order backlog from the mobile transportation area should add to momentum.

We anticipate stationary traffic systems to profit from increased investment activity from the German rail operator, Deutsche Bahn. This should especially be underpinned through planned investments in the rail network and Schaltbau can profit with increased demand for railroad crossing products (like steering and signal systems) as well as point heating devices.

Bubenger acquisition supports Schaltbau growth in 2008

Pintsch Barmag's industrial brakes business was strengthened with the acquisition of Bubenger. Industrial brakes sales at Pintsch Barmag were previously at some 10 m €. Including Bubenger we expect sales volume in this business to reach at least 40 m € in 2008. Schaltbau is now the world's leading manufacturer for crane brakes in the maritime sector and has a market share of some 40%. The next competitor in the ranking generates about half the volume of Schaltbau.

Currently Schaltbau is in the integration phase with Bubenger. With lower margins vs. Pintsch, Schaltbau has the goal to improve the profitability level to that of Pintsch's. After the integration of Bubenger, in the business year 2008, we expect to see first positive earnings contributions (after financing costs) from Bubenger.

For the upcoming business year 2008 we expect the Schaltbau group to increase sales by 11% to 255m €. More than half of the increase will come from the Bubenger consolidation. The change in product mix to higher margin products in the stationary traffic area should enable the company to improve the EBIT margin from 6.3% to 6.8% in our view. We expect operating earnings to increase by 19.3% to 17.3 m €. Lower financing costs will allow for even a higher percentage increase in net income; we estimate an increase of some 27% to 9.2 m €. Our EPS estimate of 4.90 (+26.6%) is higher than the company guidance of some 4.50-4.70. In our estimates we consider the very good order book as well as the Bubenger acquisition's positive potential for the business year 2008. .

Earnings momentum continues 2009

Schaltbau recently also published guidance for 2009. According to the company operating earnings should rise by at least 10%. In particular a higher percentage of new products and international business as well as productivity increases will contribute to improved earnings.

Fair value of the Schaltbau share increases on account of the Bubenzer acquisition to 43 €

Even though the Schaltbau share has experienced a stable upward development since the middle of 2006, the continuously improved earnings momentum of the company is not fully visible in the stock market valuation. This becomes quite evident with a PER of 7.9 and EV/EBIT of 9.3 based on our estimates for 2008.

When comparing to the peer group the low valuation is again confirmed. Admittedly the comparably low profitability as well as the still improvable financial structure should be taken into consideration.

Peer Group Comparison

Company	Price 28/11/07	Currency	PER 07	PER 08	EV/EBITDA 07	EV/EBITDA 08	EV/EBIT 07	EV/EBIT 08	EV/sales 2007	EV/sales 2008	Ebit marge % 2007	Ebit marge % 2008
MAN AG	103.88	EUR	14.3	12.1	7.3	6.9	9.2	8.6	0.9	0.8	10.9	11.0
SIEMENS	97.7	EUR	15.3	12.7	9.1	7.4	12.5	9.9	1.2	1.0	9.9	11.0
VOSSLOH	68.13	EUR	14.3	11.9	7.7	6.4	9.6	7.8	0.9	0.8	10.0	10.6
DEUTZ AG	6.93	EUR	20.0	15.5	8.8	8.0	15.0	13.0	1.1	1.0	7.0	7.7
BOMBARDIER	5.55	CAN	25.6	19.0	7.5	6.1	12.4	9.2	0.6	0.5	4.9	5.9
GENERAL ELECTRIC	37.45	USD	17.0	15.0	9.1	7.8	12.3	10.4	2.2	1.9	17.5	17.9
Average (unweighted)			17.8	14.4	8.3	7.1	11.8	9.8	1.1	1.0	10.0	10.7
SCHALTBAU HOLDING AG	38.45	EUR	9.9	7.9	7.7	6.9	10.9	9.3	0.7	0.6	6.3	6.8
Deviation Schaltbau vs. average (%)			-44.0	-45.3	-6.6	-2.6	-7.5	-5.0	-39.4	-37.7	-37.3	-36.5

Source: Thomson, Solventis estimates

Our positive opinion for the Schaltbau share is supported through the DCF model. We have now included the Bubenzer acquisition and the resulting long term perspective into our DCF. The sustainable higher profitability of the group has a value enhancing effect.

The fair value according to our model is 43 € per share (prev. 41 €).

In our opinion the proof of a successful integration of the Bubenzer acquisition within the next 12 months will close the valuation gap. In addition, we feel the positive earnings outlook for 2008 and beyond will become a stronger argument in the future for a higher valuation.

On the background of the positive earnings momentum we anticipate more room for higher valuation of the Schaltbau share. On the basis of our current assumptions we increase our target price to 43 € (price potential at least 13%).

We confirm our buy recommendation.

Schaltbau Group: Sales and EBIT by Segment

	2006		Q2 2007		H1 2007		Q3 2007		Q1-3 2007		2007e		2008e		2009e	
	IFRS	yoy %	IFRS	IFRS	IFRS	yoy %	IFRS	yoy %	IFRS	yoy %	IFRS	yoy %	IFRS	yoy %	IFRS	yoy %
Stationary transportation systems																
Sales	60.0	-11.1	16.5	14.6	31.1	2.8					73.0	21.6	92.0	26.0	96.0	4.3
EBITDA	7.0	-29.5	2.1	1.9	4.0	29.9					9.5	35.4	10.8	13.7	11.6	7.7
EBDITA margin %	11.7		12.5	13.0	12.8						13.0		11.7		12.1	
Depreciation/amortization	1.0	16.2	0.3	0.2	0.5	7.0					1.5	54.1	1.5	0.0	1.6	8.8
EBIT	6.0	-33.7	1.8	1.7	3.5	33.9					8.0	32.4	9.3	16.3	10.0	7.5
EBIT margin %	10.1		11.0	11.4	11.2						11.0		10.1		10.4	
Mobile transportation systems																
Sales	152.6	12.0	38.9	39.6	78.6	3.4					157.0	2.9	163.0	3.8	169.0	3.7
EBITDA	11.6	20.8	3.9	3.5	7.4	12.6					13.0	12.2	15.5	19.2	16.5	6.5
EBDITA margin %	7.6		10.0	8.8	9.4						8.3		9.5		9.8	
Depreciation/amortization	4.1	-2.2	1.0	1.0	2.1	2.2					4.5	10.7	4.5	0.0	5.0	11.1
EBIT	7.5	38.4	2.9	2.5	5.3	17.2					8.5	13.0	11.0	29.4	11.5	4.5
EBIT margin %	4.9		7.4	6.2	6.8						5.4		6.7		6.8	
Holding/miscellaneous																
Sales	0.1	-67.4	0.0	0.0	0.0	74.1					0.3	400.0	0.3	0.0	0.3	0.0
EBITDA	-1.8	-28.7	-0.6	-0.9	-1.5	10.4					-1.9	7.9	-2.9	52.9	-2.9	0.0
EBDITA margin %	n.m.		n.m.	n.m.	n.m.						n.m.		n.m.		n.m.	
Depreciation/amortization	0.0		0.1	-0.1	0.0						0.1	633.3	0.1	0.0	0.1	0.0
EBIT	-1.8	-28.1	-0.7	-0.8	-1.5	10.4					-2.0	13.3	-3.0	50.0	-3.0	0.0
EBIT margin %	n.m.		n.m.	n.m.	n.m.						n.m.		n.m.		n.m.	
Schaltbau group																
Sales	212.7	4.3	55.4	54.2	109.7	3.2	58.2	10.1	167.9	5.5	230.3	8.3	255.3	10.9	265.3	3.9
EBITDA	16.8	-1.4	5.4	4.5	9.9	19.3	4.5	8.4	11.7	18.0	20.6	22.3	23.4	13.6	25.2	7.8
EBDITA margin %	7.9		9.8	8.3	9.0		7.7		7.0		8.9		9.2		9.5	
Depreciation/amortization	5.0	1.1	1.4	1.1	2.6	3.1	1.3		1.2		6.1	20.8	6.1	0.0	6.7	10.4
EBIT	11.8	-2.4	4.0	3.3	7.3	26.2	3.2	9.2	10.5	20.5	14.5	22.9	17.3	19.3	18.5	6.9
EBIT margin %	5.5		7.2	6.2	6.7		5.4		6.2		6.3		6.8		7.0	
Net financial items	-4.3	0.7	-1.3	-1.1	-2.4	23.5	-1.5		-3.9		-4.5	-4.9	-4.5	0.0	-4.5	0.0
Income from participation	1.1		0.2	0.6	0.8	867.1	0.5		1.3		1.1	-0.6	1.0	-9.1	1.2	20.0
Extraordinary income	0.0		0.0	0.0	0.0		0.0		0.0		0.0		0.0		0.0	
Profit before taxes	8.6	9.3	2.9	2.9	5.8	44.9	2.2		8.0		11.1	29.0	13.8	24.3	15.2	10.1
Pre-tax margin %	4.0		5.2	5.4	5.3		3.8		4.7		4.8		5.4		5.7	
Income taxes	2.6	-9.3	0.5	0.4	0.9	15.6	0.3		1.2		2.8	8.0	3.5	24.3	3.8	10.1
Effective tax rate %	29.9		17.1	14.2	15.6		12.0		14.7		25.0		25.0		25.0	
Profit after taxes	6.0	19.8	2.4	2.5	4.9	52.0	1.9	7.5	6.8	36.0	8.3	37.9	10.4	24.3	11.4	10.1
Minorities	1.1		0.6	0.2	0.8	7.0	0.0		0.9		1.1	4.6	1.2	9.1	1.2	0.0
Group stated net profit	5.0	27.2	1.8	2.3	4.0	66.7	1.9	11.5	5.9	43.9	7.2	45.0	9.2	26.6	10.2	11.5
No. of shares (fully diluted)	1.9		1.9	1.9	1.9		1.9		1.9		1.9		1.9		1.9	
Earnings per share (diluted)	2.67	27.2	0.95	1.21	2.15	66.7	1.01	11.5	3.16	43.9	3.87	45.0	4.90	26.6	5.46	11.5

Source: Solventis estimates

DCF Model Schaltbau

	2006	2007e	2008e	2009e	2010e	2011e	2012e	Terminal Value
		1	2	3	4	5	6	
Sales	212.7	230.3	255.3	265.3	278.6	292.5	307.1	
% change	4%	8%	11%	4%	5%	5%	5%	
EBIT	11.8	14.5	17.3	18.5	20.1	21.9	23.6	
% change	-2%	23%	19.3%	6.9%	8.4%	9.4%	7.8%	
EBIT margin %	5.5%	6.3%	6.8%	7.0%	7.2%	7.5%	7.7%	
EBT	8.6	11.1	13.8	14.5	15.2	16.0	16.8	
Income tax income/expense	3.5	3.6	4.3	4.6	5.0	5.5	5.9	
Effective tax rate	30.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
NOPLAT	8.3	10.9	13.0	13.9	15.0	16.5	17.7	
% change	7%	32%	19.3%	6.9%	8.4%	9.4%	7.8%	
Depreciation/amortization	5.0	6.1	6.1	6.3	6.5	7.0	7.5	
Capex	3.7	4.0	5.0	6.5	6.5	9.0	10.0	
Receivables	28.27							
Inventories	17.30							
Liabilities	53.26	57.58	63.83	66.3	69.6	73.1	76.8	
NWC	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	
as % of sales	2.30	4.31	6.25	2.50	3.32	3.48	3.66	
Delta NWC								
Free cash flows		8.6	7.8	11.2	11.7	11.0	11.6	192.3
Net present value FCFF		8.1	6.8	9.2	9.0	7.9	7.8	
Total net present value FCFF		48.7						
Net present value Terminal Value		128.9						
as % of enterprise value		73%						
Enterprise value		177.6						
Net financial debt		86.7						
Minorities		10.0						
Associates		0						
Equity value		80.9						
Value per share (€)		43.3						

Source: Solventis estimates

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Klaus Soer, Analyst

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