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Schaltbau Holding AG

Despite a weak economic environment Q1/09 earnings improved

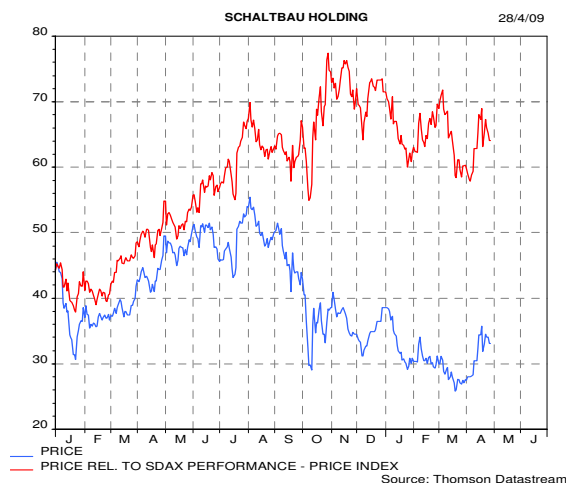
Buy (Buy)

Price target	50.00 €
Price (29.4.2009)	33.50 €
ISIN	DE0007170300
Market capitalization (million €)	62.61
No. of shares (million)	1.87
Website:	www.schaltbau.de

	2007	2008	2009e	2010e
Sales (m €)	232.06	280.20	280.00	290.00
EBIT (m €)	14.10	21.85	21.84	21.75
EBIT margin	6.1%	7.8%	7.8%	7.5%
EBITDA (m €)	19.35	27.82	28.02	28.13
EBITDA margin	8.3%	9.9%	10.0%	9.7%
Earnings per share (€)	3.85	6.35	6.30	6.85
Dividend per share (€)	0.30	0.50	0.55	0.60
Book val. per share (€)	-1.13	4.61	10.36	16.61
PER	8.88	5.40	5.42	4.99
Price/book value	-30.28	7.42	3.30	2.06
EV/EBIT	10.18	6.38	5.89	5.41
EV/EBITDA	7.42	5.01	4.59	4.19
EV/sales	0.62	0.50	0.46	0.41
Dividend yield	0.88%	1.46%	1.61%	1.75%

The presentation of full year 2008 results of the Schaltbau group confirmed our assumptions. Earnings improvements in all business units in Q1 2009 indicate Schaltbau is currently able to continue to do well in weak economic times. We reckon with an overall stable development for the company in 2009.

- The development of sales and earnings (Ebit) were inline with our expectations for the full year 2008. Sales and Ebit increased by 20.7% to 280 m € and 55% to 21.8 m € respectively. The Ebit margin increased to 7.8% (6.1%).
- Balance sheet ratios continuously improved. Financial debt (incl. Pensions) went down by 4 m € to 75.6 m € and for the first time since the restructuring of the company took place the shareholder's equity has turned positive to the tune of 8.6 m € (ratio: 5%).
- Even in these current tough times Schaltbau was able to increase sales and earnings by some 11% for Q1 2009.
- With the order intake off some 4% in Q1/09, we reckon Schaltbau will show an overall stable development in 2009.
- Based on classical ratios, our DCF model and the peer group comparisons, the shares of Schaltbau appear to be quite undervalued. The fair value of the stock based on our current analysis is 50 € per share.
- We confirm our buy recommendation.



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Growth continues in 2008 – Company succeeds in increasing profitability

The publication of the final results for the business year 2008 confirmed the broadly known figures which in detail proved the company experienced a successful year. Positive trends for the demand of products offered by Schaltbau for the transportation industries, mainly specialized products for the areas of bus and rail, were supportive for the good year.

The Schaltbau group sales increased by 20.7% to 280.2 m €. The main drivers for the growth are to be found in both business units mobile and stationary transportation technology. The mobile area (mainly bus and train doors) experienced a sales increase of some 13.3%. In the area of stationary transportation technology sales went up by 35.7%. Adjusted for the acquisition of Bubenzer the sales increase amounted to some 11.7%.

The operating earnings (Ebit) reached the level of 21.8 m € (+55%). This strong earnings development was underpinned by an improved product mix and profitability and good demand leading to higher capacities utilised. Especially the higher percentage of the stronger margin business to be found in the area of stationary transportation technologies left its mark on profitability. The Ebit margin in the Schaltbau group has now reached an impressive level of 7.8% (prev. yr: 6.1%).

At a level of 6 m € the financial result was negative and is some 2 m € below the previous year's level. The main reason for the higher costs is to be found in the full year consolidation of the costs for the acquisition of Bubenzer (brakes for industrial cranes). Simultaneously working capital increased some 14% to 66.7 m € owing to the increased sales.

The mere 18% tax rate can be explained by the still, remaining tax-losses carried forward. For this reason the net income of 11.8 m € (+64.5%) increased at an above-proportion rate in comparison to the improvement of the operating earnings.

The high earnings portion of minorities (1.2 m €, +27%) indicate the chinese joint venture has again contributed nicely to the group earnings. We estimate the chinese JV makes up some 5% of group sales and approx. 19% (prev. yr: 23%) of group earnings at Schaltbau.

In light of a continuous positive cash flow development and a simultaneous low need for capital expenditure, the company decided to increase the dividend to .50 € (prev. yr. .30). The payout however still remains low with a payout ratio of 7.8%. We estimate the dividend will remain stable for the current business year. One should keep in mind though, even after a year of strong generation of earnings, the group equity remains at a low level (shareholder's equity ratio: 5%).

When reflecting on the economic environment, especially in the H2 of 2008, we can highlight the ability of Schaltbau to increase profitability in spite of

the relatively difficult business environment. In our opinion the company has formed a good base to at least achieve a stable business development.

Reduced net debt – First time positive shareholder's equity

Including pension provisioning the financial debt in 2008 went down by approx. 4 m € to 75.6 m €. No need for larger investments allowed for a normalised level of capex of less than 5 m €, and free cash flow of 13 m €. As long as no acquisitions are in the cards for the current year we estimate debt in 2009 will again be further reduced.

The improved earnings situation lays the groundwork for an enhanced shareholder's equity level. For many years the company reported a negative level of shareholder's equity at the group level (after write downs on holdings due to the earlier reorganisation of the group). Through the accumulation of earnings Schaltbau achieved a positive level of shareholder's equity (8.6m € or a ratio of 5%) for the first time in 2008.

We expect this to continue in 2009 and we estimate the ratio of shareholder's equity to almost double to 11% or 19.2 m €. At this level Schaltbau would reach a book value per share of some 10.29 €.

Q1 2009: Slight decline in orders however clearly better sales growth

For Q1 the orders were down slightly by 3.9% to 79.3 m €. In this context one should mention the previous year's level of Q1 orders were at record levels. On the other hand the sales increased by 11.5% due to the high order backlog. Operating earnings went up by 11%. Schaltbau profited also from past restructuring efforts that have made the company more efficient on the costs side. Otherwise the growth from all business units supported the good development.

Schaltbau Quarterly Figures

	Q1/08	Q1/09	% change	2009e	% change
Order Intake	82.5	79.3	-3.9		
Sales	65.1	72.6	11.5	280.0	0.3
EBIT	5.5	6.1	10.9	21.8	-0.1
<i>EBIT margin %</i>	<i>8.4</i>	<i>8.4</i>		<i>7.8</i>	
Group Net Income	3.5	4.3	22.9	13.0	-0.3
Group Net Income after minorities	3.1	3.7	19.4	11.8	-0.5
EPS	1.68	1.96	16.7	6,3	-0.5

Source: Schaltbau Holding AG

Outlook 2009: At least stable earnings development foreseeable – We increase our earnings estimates

Based on the sustained high order backlog as well as the stable development from important customers (Bus manufactures, Crane brakes) we currently do not see a weakening of the positive operating performance achieved in Q1 2009.

Backed by the relative good development and the respective management guidance we have adjusted our estimates. We now expect Schaltbau to reach sales of 280 m € (old: 286 m €). On the earnings side we now go for an unchanged level of operating earnings (Ebit) of some 21.8 m € (old: 19.7 m €). This means we estimate the Ebit margin should reach the level attained in 2008. Our EPS estimate is now 6.30 € (old: 6.19 €).

Schaltbau: Estimate Changes 2009

2009e	Solventis Estimates (old)	Solventis Estimates (new)
Sales	286	280
EBIT	19.7	21.8
EPS	6.19	6.30

Source: Schaltbau AG, Solventis Estimates

The Schaltbau share is under the fair value

Especially taking into consideration hefty movements in the stock markets in the past and the effects this has had on smaller cap stocks, the Schaltbau shares have clearly outperformed the S-Dax during the past crisis times. A reason for this is the remarkably stable earnings development Schaltbau has experienced. Notwithstanding the current situation where Schaltbau stands out amongst its peers with a clearly better earnings development the shares of the company in comparison to the peer group are still tagged with a large discount. In our opinion this is due to the comparably weaker financial situation and risks attached.

The fair value of the Schaltbau share according to our DCF amounts to 50 € per share. The reason for this somewhat high discount is due to the market uncertainties tied to the economic crisis in our opinion. As this strain eases and more positive prospects for economic improvements continue to return we are of the opinion the gap for the discount currently allotted to the share of Schaltbau will close.

Peer Group Comparison

Company	Price 29.04.2009	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	51.55	Euro	27.0	10.7	10.7	6.7	6.5	9.8	9.7	7.8%	1.5	0.8
VOSSLOH AG	78.63	Euro	8.3	12.5	11.7	7.1	6.4	8.6	7.8	10.8%	2.1	0.9
MAN AG	45.75	Euro	5.5	15.4	14.4	8.1	7.7	12.4	11.6	5.7%	1.2	0.7
BOMBARDIER INC	2.88	U.S. Dollar	5.1	6.9	7.1	2.7	2.8	3.6	3.8	6.8%	1.8	0.2
Average (unweighted)			11.5	11.4	11.0	6.2	5.9	8.6	8.2	7.77%	1.6	0.7
MEDIAN			6.9	11.6	11.2	6.9	6.5	9.2	8.8	7.30%	1.6	0.7
SCHALTBAU HOLDING AG	34.19	Euro	5.4	5.4	5.0	4.6	4.2	5.9	5.4	7.80%	3.3	0.5
Deviation to MEDIAN			-21.4%	-53.4%	-55.5%	-33.3%	-35.5%	-36.1%	-38.3%	6.9%	105.3%	-37.5%

Source: Thomson Financial, Solventis Estimates

Summing up: In our opinion due to the stable earnings development at Schaltbau we see play for a higher valuation of the shares of the company. We would expect the company to profit from the prospects of an economic pick-up ahead and the associated improved earnings momentum.

We continue to recommend Schaltbau shares a buy. Our share price target remains 50 €.

Schaltbau Group: P+L

	2007	yoy	2008e	yoy	2009e	yoy	2010e	yoy
Sales	232.06	9.1%	280.20	20.7%	280.00	-0.1%	290.00	3.6%
Unfinished goods	2.90	-6.0%	1.28	-55.8%	1.28	-0.1%	1.32	3.6%
Inventory changes & own work cap.	1.20	n.m.	0.88	-26.4%	0.52	-41.0%	0.52	0.0%
Other operating earnings	3.23	21.5%	4.19	29.6%	4.09	-2.4%	4.38	7.2%
Cost of goods	123.54	12.0%	150.94	22.2%	150.84	-0.1%	156.22	3.6%
Gross profit	115.85	7.1%	135.61	17.1%	135.05	-0.4%	140.01	3.7%
Personnel expenses	74.77	4.0%	79.36	6.1%	79.30	-0.1%	82.13	3.6%
Depreciation	5.26	4.4%	5.97	13.6%	6.18	3.5%	6.38	3.3%
Other operating expenses	21.72	11.6%	28.43	30.9%	27.73	-2.4%	29.74	7.2%
Ebit (prerestruct. charges)	14.10	19.5%	21.85	55.0%	21.84	-0.1%	21.75	-0.4%
Ebit margin (prerestruct. charges)	6.07%	0.5 pp	7.80%	1.7 pp	7.80%	0.0 pp	7.50%	-0.3 pp
Ebitda	19.35	15.0%	27.82	43.8%	28.02	0.7%	28.13	9.0%
Ebitda margin	8.34%	0.4 pp	9.93%	1.6 pp	10.01%	0.1 pp	9.70%	0.7 pp
Ebit	14.10	19.5%	21.85	55.0%	21.84	-0.1%	21.75	10.2%
Ebit margin	6.07%	0.5 pp	7.80%	1.7 pp	7.80%	0.0 pp	7.50%	0.6 pp
Earnings minorities	1.52	39.5%	0.33	-78.6%	0.33	0.0%	0.33	0.0%
Interest income	0.25	226.0%	0.21	-15.1%	0.22	5.2%	0.24	0.8%
Interest expense	5.84	33.6%	6.59	12.9%	6.50	-1.3%	4.60	0.0%
Financial result	-4.06	27.0%	-6.05	48.9%	-5.95	-1.6%	-4.04	-0.1%
Earnings before taxes (EBT)	10.03	16.7%	15.80	57.5%	15.89	0.5%	17.71	11.5%
EBT margin	4.32%	0.3 pp	5.64%	1.3 pp	5.67%	0.0 pp	6.11%	0.4 pp
Taxes	1.87	-27.2%	2.73	46.2%	2.86	4.7%	3.54	23.9%
Tax rate	18.63%	-11.2 pp	17.29%	-1.3 pp	18.00%	0.7 pp	20.00%	2.0 pp
Earnings after taxes (EAT)	8.17	35.4%	13.07	60.1%	13.03	-0.3%	14.17	8.8%
Minorities	0.97	-8.1%	1.23	27.1%	1.25	1.7%	1.36	8.8%
Group net Net income	7.20	44.6%	11.84	64.5%	11.78	-0.5%	12.81	8.8%
No. of shares on 27.04.2009 (mill.)	1.87	0.0%	1.87	0.0%	1.87	0.0%	1.87	0.0%
Earnings per share	3.85	44.6%	6.35	64.5%	6.30	-0.5%	6.85	8.8%

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%	5.33	-32.4%	6.73	26.2%	6.97	3.6%
Accounts receivables	33.78	19.5%	33.24	-1.6%	33.22	-0.1%	34.40	3.6%
Inventories	46.41	9.7%	53.34	14.9%	53.31	-0.1%	55.21	3.6%
Other noncurrent assets	7.55	38.6%	6.69	-11.4%	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	0.22	363.8%	0.04	-81.7%	0.04	0.0%	0.04	0.0%
Total noncurrent assets	95.84	18.8%	98.64	2.9%	99.98	1.4%	103.31	3.3%
Fixed assets	40.35	8.7%	40.27	-0.2%	40.09	-0.4%	40.71	1.5%
Intangible assets	11.41	85.7%	12.22	7.1%	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	8.40	58.4%	7.99	-4.9%	7.99	0.0%	7.99	0.0%
Deferred Taxes	8.73	-13.9%	9.00	3.2%	9.00	0.0%	9.00	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%	69.48	0.9%	69.30	-0.3%	69.92	0.9%
Total assets	164.73	17.7%	168.12	2.1%	169.28	0.7%	173.23	2.3%
Equity & Liabilities								
Subscribed capital	6.84	0.0%	6.85	0.1%	6.85	0.0%	6.85	0.0%
Capital reserves	8.34	7.7%	8.44	1.3%	8.44	0.0%	8.44	0.0%
Returned earnings	-29.60	-14.2%	-23.91	-19.2%	-13.16	-45.0%	-1.47	-88.8%
Accumulated other comprehensive income	10.24	33.8%	14.83	44.8%	14.83	0.0%	14.83	0.0%
Shareholder's equity	-4.19	-65.9%	6.21	-248.3%	16.97	173.0%	28.65	68.9%
Minorities	2.08	-6.6%	2.40	15.2%	2.40	0.0%	2.40	0.0%
Shareholder's equity with minorities	-2.11	-79.0%	8.61	-508.0%	19.36	124.9%	31.05	60.4%
							25.20	
Long-term debt								
Pension provisions	19.14	-0.9%	18.99	-0.8%	18.97	-0.1%	19.65	3.6%
Other provisions	5.80	-23.8%	5.09	-12.4%	5.08	-0.1%	5.26	3.6%
Financial liabilities	52.65	18.3%	48.52	-7.9%	48.52	0.0%	41.19	-15.1%
Tax liabilities	6.03	-19.0%	6.28	4.2%	6.28	-0.1%	6.50	3.6%
Other debt	1.13	42.5%	0.00	-100.0%	0.00	0.0%	0.00	0.0%
Total long-term debt	84.76	6.4%	78.87	-6.9%	78.85	-0.0%	72.60	-7.9%
Short-term debt								
Other provisions	17.37	18.6%	19.49	12.2%	19.47	-0.1%	20.17	3.6%
Trade payables	21.73	25.6%	19.83	-8.7%	19.82	-0.1%	20.52	3.6%
Financial debt	15.73	2.6%	13.42	-14.7%	3.89	-71.0%	0.00	-100.0%
Tax liabilities	0.07	43.5%	0.15	130.3%	0.15	-0.1%	0.16	3.6%
Other liabilities	9.59	25.6%	13.16	37.2%	13.15	-0.1%	13.62	3.6%
Advance payments	17.59	14.2%	14.59	-17.0%	14.58	-0.1%	15.10	3.6%
Total short-term debt	82.07	16.6%	80.63	-1.7%	71.06	-11.9%	69.57	-2.1%
Total Equity & Liabilities	164.72	17.7%	168.11	2.1%	169.27	0.7%	173.22	2.3%

Source: Schaltbau, Solventis Estimates

DCF Model Schaltbau

(m €)	2008e	2009e	2010e	2011e	2012e	Terminal Value
Sales	280.2	280.0	290.0	293.0	302.0	
% change	20.7%	-0.1%	3.6%	1.0%	3.1%	
EBITDA	27.8	28.0	28.1	28.6	29.4	
EBITDA margin	9.9%	10.0%	9.7%	9.7%	9.7%	
EBIT	21.9	21.8	21.8	22.0	22.7	
EBIT margin	7.8%	7.8%	7.5%	7.5%	7.5%	
NOPLAT	18.1	17.9	17.4	17.6	18.1	16.5
Reinvestment Rate	58.6%	-1.2%	17.2%	12.1%	18.5%	27.8%
FCFF	7.5	18.1	14.4	15.5	14.8	158.1
WACC	6.57%	6.87%	7.15%	7.54%	7.96%	7.80%
Cumulative WACC		106.87%	114.51%	123.15%	132.95%	143.32%
Net present value FCFF		17.0	12.6	12.5	11.1	110.3
Total net present value FCFF	53.2					
Net present value Terminal Value	110.3					
as % of enterprise value	67.5%					
Enterprise value	163.5					
Net financial debt	75.6					
Value of tax-loss carried forward	0.0					
Minorities	10.0					
Associates	15.0					
Equity value	92.9					
Value per share (€)	49.73					

Source: Solventis Estimates

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Klaus Soer, Analyst**5. Explanatory remarks on the recommendation system**

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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.
- 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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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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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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