

KLAUS SOER
 TEL.: +49 (0) 69 - 71589152
 KSOER@SOLVENTIS.DE

KLAUS SCHLOTE
 TEL.: +49 (0) 69 - 71589151
 KSCHLOTE@SOLVENTIS.DE

Schaltbau Holding AG

H1 2007 with accelerated earnings dynamic – Acquisition strengthens Stationary Transportation Systems segment

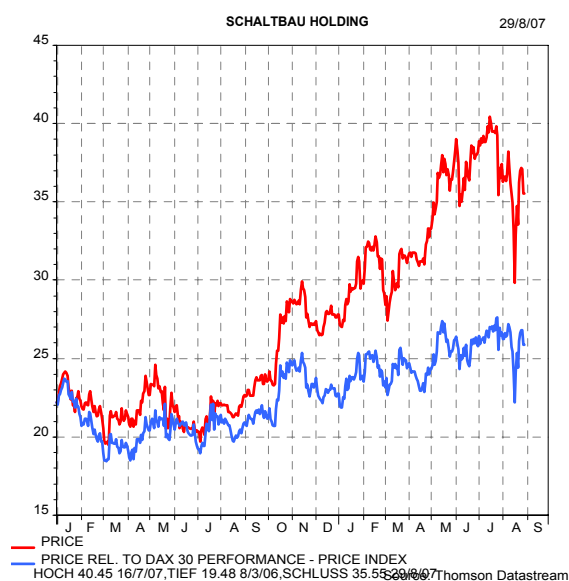
Buy (Buy)

Target price	41 € (41 €)
Price (29.08.2007)	36.50€
ISIN	DE0007170300
Market capitalization (€ million)	67.9
No. of shares (million)	1.9
Website:	www.schaltbau.de

Schaltbau's earnings momentum accelerated in the first half of 2007. The strong growth in new orders and order backlog augurs well for a positive second half, too. With the acquisition of the Bubenzer crane braking systems for port applications business Schaltbau has strengthened its position in a growth market.

	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	13.7	9.4	7.5	6.7
EV/EBIT	12.1	10.5	8.8	8.3
EV/EBITDA	8.5	7.4	6.5	6.1
EV/sales	0.7	0.6	0.6	0.6
Dividend yield (%)	0.4	0.5	0.7	1.0

- With sales of € 109.7m (+3.2%) and operating earnings of € 7.3m (+26.2%) the figures for H1 2007 matched up to our expectations. Driver was the improved order situation in both Stationary Transportation Systems and Mobile Transportation Systems.
- For the full year 2007 we expect net profit to rise overall by 37.9% to € 8.3m.
- For 2008 we reckon with a continued positive earnings dynamic, which could accelerate still further on the back of a successful integration of the Bubenzer acquisition. Schaltbau should also profit from orders from Deutsche Bahn (railroad crossing systems and heating systems for railroad points).
- The Schaltbau share is still trading below fair value. With a PER of 7.5x and an EV/EBIT of 8.8x estimated 2008 earnings the market has not yet priced in Schaltbau's potential.
- We maintain our Buy recommendation and our target price of € 41. This represents upside of at least 10%.



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Strong earnings growth in H1 2007

In the first half of 2007 Schaltbau sustained the positive business development in its two business segments of Mobile Transportation Systems and Stationary Transportation Systems which has been visible already since the beginning of the year.

At € 109.7m (+3.2%), Schaltbau's Group sales in the first half were in line with our expectations. Operating earnings reached a new record of € 7.3m (+26.2%). The EBIT margin was improved to 6.7% (H1 2006: 5.5%).

Both segments, Stationary Transportation Systems and Mobile Transportation Systems, contributed to the earnings growth. In Stationary Transportation Systems, operating earnings were up 31.3% to € 3.5m. Earnings were also up in Mobile Transportation Systems, the biggest segment in terms of sales. The growth in operating earnings to € 5.3m (+17.2%) reflects the successes of the Bode Group, which focuses on door systems for buses and trains.

After increased financing costs (higher interest rate level) and a lower effective tax rate of only 15.6%, net profit came to € 4.9m (+52% yoy).

Strong order intake – growth in order backlog

Order intake in the first half of 2007 was again impressive. New orders in the first six months were up 14% to € 131.1m, buoyed by new orders from Deutsche Bahn AG (German Rail). The growth in order backlog was even more pronounced. At € 151m (+28.2% yoy), orders on hand reached a new record level, assuring full capacity utilization.

Bubenger acquisition with crane brakes for the maritime segment enhances enterprise value

With the acquisition of the Bubenger Group in the first half of 2007 Schaltbau has strengthened its position in the promising growth segment of crane braking systems. Hitherto, Schaltbau had been represented in this market segment with a sales volume of only about € 10m through Pinsch Barmag. Including Bubenger, sales of at least € 40m will be achieved in 2008. This will give Schaltbau market leadership in crane braking systems with a market share of about 40%. This is about twice that of its next largest competitor.

We assume that, in line with Schaltbau's strategy, the purchase price or enterprise value for Bubenger was about seven times EBIT. Given that Bubenger does not yet match the level of profitability of Schaltbau's own activities in this area, the price tag including the debt taken over is likely to have been in the region of € 7m.

Schaltbau is currently in the process of integrating the new acquisition. At the same time Schaltbau will be seeking to raise Bubenger's level of profitability to that of its existing activities in this area. As there is little transparency here as yet we have so far assumed a neutral impact in our earnings estimates.

Record result likely for the full year 2007

The positive order situation augurs well for the outlook for the full year 2007. We assume that the positive earnings trend will continue. In our updated Group sales forecast for 2007 of € 230.3m (+8.3%, on a like-for-like basis +4%) we have allowed for the Bubenger Group's consolidation from July 2007. However, we have assumed that, given the initial integration costs, the new acquisition will not yet make a positive earnings contribution. Our forecast for operating earnings is unchanged at € 14.5m (+22.9%). After financing costs and taxes (effective tax rate back to a normal level of 25%), this leaves our earnings per share estimate unchanged at € 3.87(+45% yoy). This is still above the Schaltbau management's recently increased guidance (earnings per share of € 3.50-3.65, previous guidance € 3.30-3.50). In light of the numbers for the first half and the good quality of the orders on hand we believe our estimate is realistic.

Outlook: Positive earnings momentum to continue in 2008

We expect the positive trend in both sales and earnings to continue. This is already largely preordained in view of the high order backlog. Given that the Bubenzer acquisition will be consolidated for the first time for the full year we expect sales to rise by 10.9% to € 255m. On a like-for-like basis this would be an increase of 4.1%.

Volumes should pick up in both business segments since Schaltbau stands to profit from the investments planned in the Deutsche Bahn AG network with product lines such as safety systems for rail crossings and heating systems for railroad points. Mobile Transportation Systems could receive a boost especially from new customers won outside Germany. We also expect Bode, the biggest division which produces door systems for buses and trains, to improve its profitability and make higher earnings contributions in 2008.

The Schaltbau Group's higher profitability will be driven largely by economies of scale in connection with the enlarged volume of business.

We have estimated the additional sales from the Bubenzer acquisition, which will be consolidated for the first time for the full year in 2008, at around € 25m. As there is little transparency as yet regarding the integration costs and the potential to improve its underlying profitability, we have not factored in any positive earnings contributions for the time being. We assume that a clearer picture of this increasingly important area of activity will emerge in the course of Q4 2007 and that it will then be possible to make a more precise earnings projection.

Against this backdrop, our estimate of growth of 19.3% in operating earnings to € 17.3m is to be regarded as the lower end of a potential range. Assuming more or less unchanged financing costs we should see earnings per share of at least € 4.90 in 2008.

The focus of Schaltbau's strategy is on further expanding its international business. Sales potential for Schaltbau products is presented above all in the large railroad markets in Eastern Europe (such as Poland). This regional expansion could be underpinned by further acquisitions given the company's much improved financing situation. The priority is likely to be more on acquisitions that are value-accretive than on gains in market share.

Fair value above Schaltbau's current share price

Although the share has been on a strong upward trend since mid-2006, Schaltbau's sustained positive earnings momentum is not fully reflected as yet in its valuation. Trading on a PER of 7.5x and an EV/EBIT of 8.8x estimated 2008 earnings, the share is cheap. This view is also supported by our DCF model, which produces a fair value of around € 41 per share.

We assume that this valuation gap might well close over the next 6-12 months as proof of the successful integration of the Bubenzer acquisition becomes visible. The, as it is, good earnings outlook for 2008 and beyond should then also come to be reflected more strongly in the market's valuation of the share.

To sum up, it can be concluded that, against the backdrop of the positive earnings momentum, the Schaltbau share has potential for a higher valuation level. On the basis of our present assumptions our target price for the Schaltbau share is € 41 (upside of at least 10%). We confirm our Buy recommendation.

Schaltbau Group: Sales and EBIT by Segment

	2006		Q2				2007e		2008e		2009e	
			IFRS	yoy %	Q1 2007 IFRS	2007 IFRS	H1 2007 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	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	20,6	22,3	23,4	13,6	25,2	7,8
EBDITA margin %	7,9		9,8	8,3	9,0		8,9		9,2		9,5	
Depreciation/amortization	5,0	1,1	1,4	1,1	2,6	3,1	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	14,5	22,9	17,3	19,3	18,5	6,9
EBIT margin %	5,5		7,2	6,2	6,7		6,3		6,8		7,0	
Net financial items	-4,3	0,7	-1,3	-1,1	-2,4	23,5	-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	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	
Profit before taxes	8,6	9,3	2,9	2,9	5,8	44,9	11,1	29,0	13,8	24,3	15,2	10,1
Pre-tax margin %	4,0		5,2	5,4	5,3		4,8		5,4		5,7	
Income taxes	2,6	-9,3	0,5	0,4	0,9	15,6	2,8	8,0	3,5	24,3	3,8	10,1
Effective tax rate %	29,9		17,1	14,2	15,6		25,0		25,0		25,0	
Profit after taxes	6,0	19,8	2,4	2,5	4,9	52,0	8,3	37,9	10,4	24,3	11,4	10,1
Minorities	1,1		0,6	0,2	0,8	7,0	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	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	
Earnings per share (diluted)	2,67	27,2	0,95	1,21	2,15	66,7	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	270,6	276,0	281,5	
% change	4%	8%	11%	4%	2%	2%	2%	
EBIT	11,8	14,5	17,3	18,5	18,9	19,3	19,7	
% change	-2%	23%	19,3%	6,9%	2,4%	2,0%	2,0%	
EBIT margin %	5,5%	6,3%	6,8%	7,0%	7,0%	7,0%	7,0%	
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	4,7	4,8	4,9	
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	14,2	14,5	14,8	
% change	7%	32%	19,3%	6,9%	2,4%	2,0%	2,0%	
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	67,7	69,0	70,4	
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	1,33	1,35	1,38	
Delta NWC								
Free cash flows		8,6	7,8	11,2	12,9	11,1	10,9	181,0
Net present value FCFF		8,1	6,8	9,2	9,9	8,0	7,3	
Total net present value FCFF		49,2						
Net present value Terminal Value		121,4						
as % of enterprise value		71%						
Enterprise value		170,6						
Net financial debt		84,5						
Minorities		10,0						
Associates		0						
Equity value		76,0						

Source: Solventis estimates

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