

Schaltbau Holding AG

BUY

(from BUY since 2008/04/28)

Mechanical Engineering

€30.15

Germany

10th, October 2016

Disappointing results in Q2`16

Order intake increased 23.8%

- In Q2`16 revenues increased 1.6% to €130.2m and order intake 23.8% to €163.6m. The solid order intake was mainly driven by the Mobile Transportation division. The operating performance disappointed again. EBIT dropped 24.5% to €8.4m. The EBIT margin declined from 8.7% to 6.5%. The weak operating performance was attributable to the divisions Mobile and Stationary Transportation Technology.
- In the first half year revenues increased 5.1% to €247.7m mainly driven by the Components division. EBIT dropped 36.9% to €12.4m and the EBIT margin declined from 8.4% to 5%. Order intake increased 23% to €319.1m and order backlog grew 23.9% to €395.5m with a very healthy book-to-bill ratio of 1.29x.
- After second quarter results management reiterated the guidance for the current year. On 5th, September however management released a profit warning. Now EBIT is expected to reach only €21m compared to €41.5m previously. Net income is expected to drop from €27.3m to €11m. Earnings per share are expected to decline from €3.50 to €0.80. We expect also the dividend to decline from €1.00 to €0.40 per share.
- The timing and size of the profit warning surprised the market. We reduced our price target per share from €65 to €45. Our "BUY" recommendation however will remain unchanged due to the strong order backlog and the low valuation even after the downgrade.

Key data								
Year to Dec	Sales (€m)	EBITDA (€m)	Net profit (€m)	EPS (€)	Net div (€)	P/E (x)	EV/ EBITDA (x)	Net yield (%)
2015	496.7	49.5	17.4	2.90	1.00	16.5	10.1	2.1%
2016E	532.1	32.4	5.2	0.87	0.40	34.8	11.8	1.3%
2017E	559.9	51.4	21.6	3.60	1.00	8.4	7.4	3.3%
2018E	586.0	54.5	23.8	3.97	1.05	7.6	7.0	3.5%

Source: fairesearch

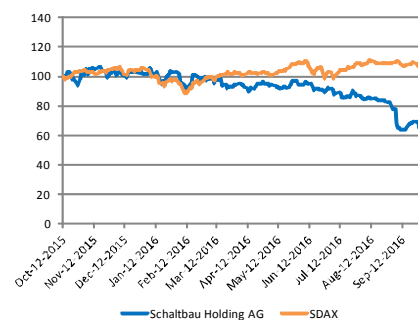
Q2`16 results

Next event	Q3`16 – 26 th , Oct.16
ISIN	DE0007170300
Target Price	€45(€65)
Market cap.	€181.15m
Net debt 16E	€199.9m
Book value per share 16E	€13.79
Range (12m)	€28.85-€52.31
Av. daily volume	867
Free float	67.89%
CG Scorecard	94%
fairpoints:	FFFFF

Performance (%)	1m	3m	12m
Relative	-5.3	-39.3	-47.4
Absolute	-7.5	-31.4	-39.1

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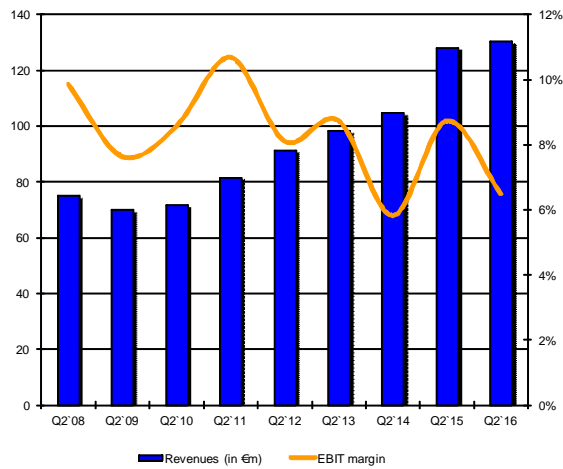
Share price (blue) vs SDAX (1 y.)



Source: Capital IQ

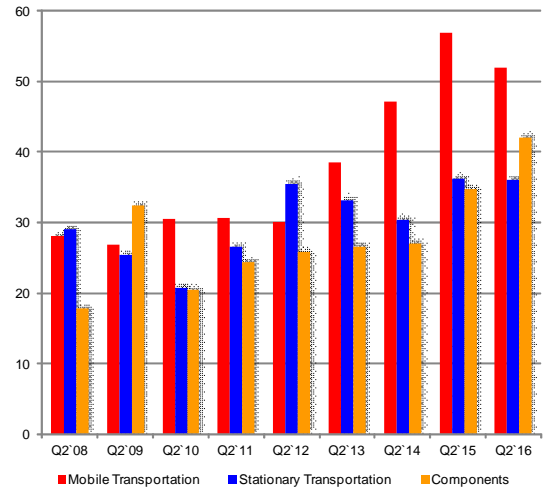
Investment Summary

Revenues and EBIT margin Q2`08-Q2`16



Source: [fairesearch](#)

Revenues by division Q2`08-Q2`16

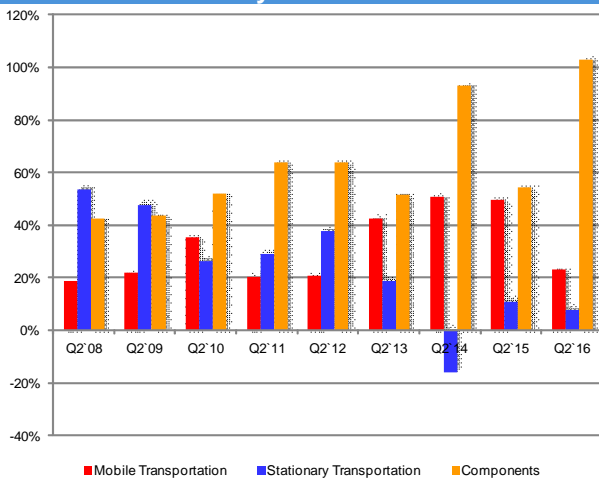


Source: [fairesearch](#)

Lacklustre performance continued in Q2`16

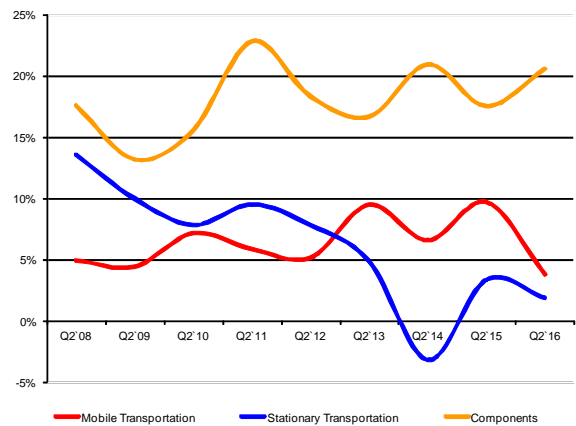
In the second quarter the lacklustre operating performance continued although the company reported a strong order intake and order backlog. Order intake increased 23.8% to €163.6m and the order backlog grew 23.9% from €319.1m to €395.5m. The book-to-bill ratio reached 1.26x which looks very healthy. Revenues however increased only marginally by 1.6% to €130.2m. EBIT dropped 24.5% from €11.2m to €8.4m. The EBIT margin declined from 8.7% to 6.5%.

EBIT contribution by division Q2`08-Q2`16



Source: [fairesearch](#)

EBIT margin by division Q2`08-Q2`16



Source: [fairesearch](#)

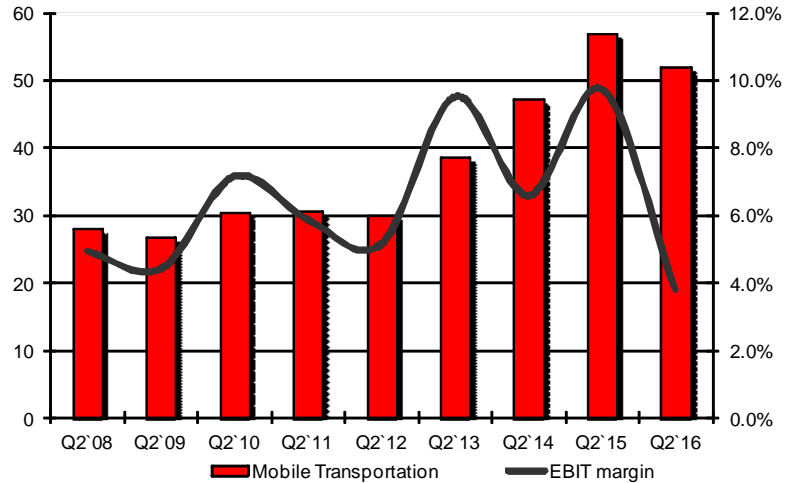
In the first half year total order intake increased 23% to €319.1m and revenues grew 5.1% to €247.7m. The division Mobile Transportation Technology profited from two large orders for door systems and sanitary systems. In addition the business division Components profited from the acquisition of SPII. The operating performance however suffered. EBIT declined 36.9% to €12.4m and the EBIT margin from 8.4% to 5%. Only the business division Components contributed substantially to the operating performance. Results of the other two divisions were disappointing. Mobile Transportation

Technology reported an EBIT decline of 55.1% to €5.3m and Stationary Transportation Technology even a loss of €2.5m.

Mobile Transportation Technology

Margins under pressure

Revenues and EBIT margin Q2'08-Q2'16



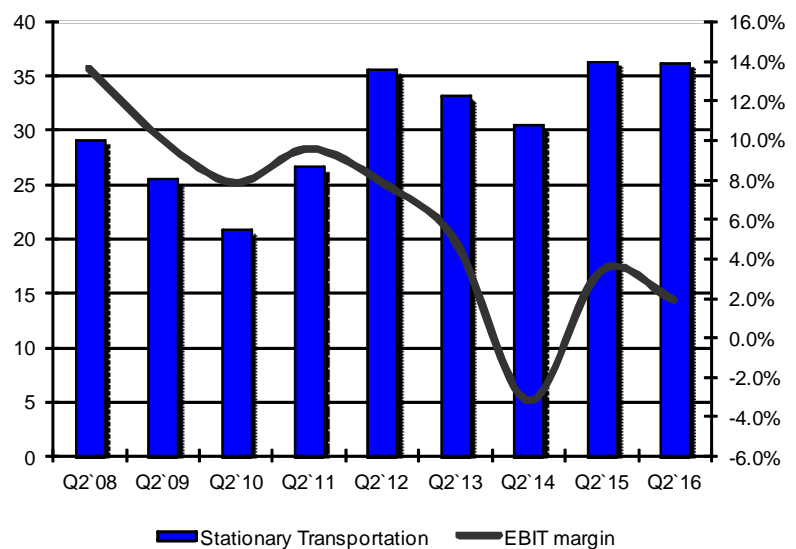
Source: fairresearch

Revenues declined 8.7% to €51.9m order intake however increased strongly by 54.6% to €90.6m. In April the subsidiary ALTE Technologies signed a large contract for sanitary modules and Bode for railway doors systems. EBIT plummeted 64.6% to €1.96m mainly influenced by products with lower margins sold by the Bode Group. Results from ALTE Technologies were still negative however the losses declined.

Stationary Transportation Technology

Infrastructure still weak

Revenues and EBIT margin Q2'08-Q2'16



Source: fairresearch

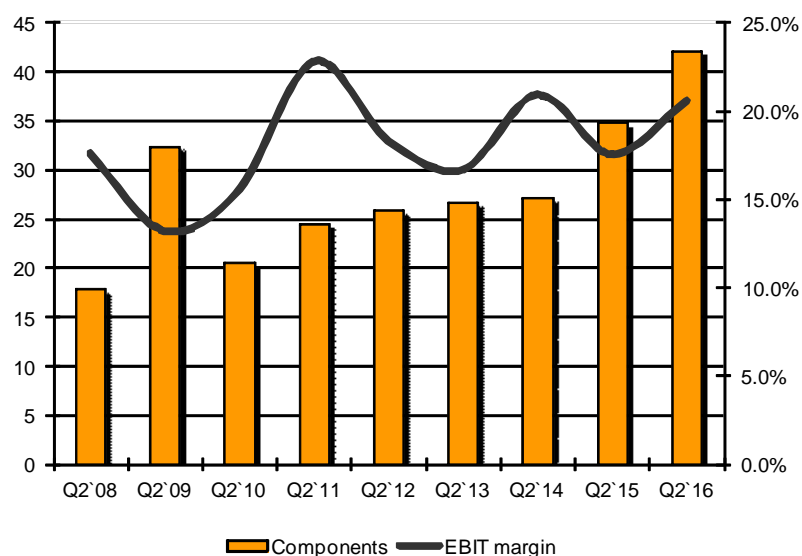
In the second quarter order intake declined 5.8% to 36.9m and revenues nearly remained stable at €36.1m. Order backlog increased 9.1% to €104.5m. EBIT plummeted 44.8% to €0.67m. The EBIT

margin declined further from 3.4% to 1.9%. The business division still profited from ongoing demand for Brake Systems from operators of major ports in Asia and the Middle East.

Components

Not only SPII integration pushed revenues and earnings

Revenues and EBIT margin Q2'08-Q2'16



Source: fairresearch

Revenues jumped 21.1% to €41.1m and order intake increased 4.9% to €36.1m. Excluding the newly consolidated SPII revenues were slightly down due to weak demand from China. EBIT skyrocketed 42.3% to €8.68m. The EBIT margin increased from 17.5% to 20.6% and reached a record level. SPII already contributed positively to the operating performance but also the reduction of allowances on receivables.

Profit warning surprised the market

Earnings are expected to drop by around 50%

Second quarter results were disappointing again but management reiterated the guidance before the profit warning was published. Revenues are expected to reach €530m which is €20m less compared to the previous guidance. The consolidation of Albatros in the second half of the current year is mainly responsible for this increase in revenues. EBIT is expected to reach €41.5m and net income at least €27.3m also driven by the first time consolidation of Albatros.

The profit warning which was released on 5th, September surprised the market. Management is now expecting EBIT to reach €21m and net profit will drop from €27.3m to €11m. Earnings per share will reach €0.80 (previously €3.50). The sales target remained unchanged.

Several negative factors influenced the performance of the company. The purchase price allocation related to the full consolidation of Albatros was miscalculated. Additional €4m will negatively influence the operating performance. In addition management changed the business model for PSD (platform screen doors) in Brazil. This

resulted in total write-downs of around €9m. Management is now planning to act only as a supplier of components and subsystems.

Furthermore management accounted for possible negative impacts on earnings attributable to project delays in the two divisions Mobile and Stationary Transportation Technology and write-downs in subsidiaries.

in €m	EBIT	net income
guidance	41.5	27.3
profit warning	21.0	11.0
difference	20.5	16.3
- purchase price recalculation	4.0	
- PSD Brazil (direct EBIT impact)	6.5	
- write downs subsidiaries	10.0	

Source: *fairresearch* estimates

Wanted: A new CFO!

In June 2016 just before the AGM the CFO Elisabeth Prigge resigned after the third largest shareholder Monolith Duitsland (6.9%) suggested publicly that Mrs. Prigge was not the right person for the CFO job. Mrs. Prigge started her job in September 2012 after the previous CFO had resigned.

Purchase price calculation went wrong

In 2011 Waltraud Hertreiter resigned due to family reasons. She started her job as CFO on 1st July 2003. In May 2011 Gisbert Ulmke former CEO of the less successful company Arques Industries AG joined Schaltbau Holding as new CFO. He left the company just after one year in January 2012 which was foreseeable. Mrs. Prigge who previously also worked for mg technologies AG (head of group consolidation and finance accounting) took over and nearly made it four years. We assume that the miscalculation of the purchase price allocation was the main reason why the CFO was asked to leave the company.

Supervisory board under pressure

In addition the recent shareholder meeting was quite unusual because the two major shareholders Satora Beteiligungs GmbH (11.62% stake) and the Zimmermann family might have some discussions within the supervisory board about the future of the company. Dr. Cammann, the present CEO of the company, and his family are the solely shareholders of Satora Beteiligungs GmbH. The chairman of the supervisory board Hans Jakob Zimmermann owns 11.21% of the company. At the end of the conflict Mr. Schmittmann, chief risk officer of Commerzbank AG, who was responsible of the nomination committee, left the board. He was replaced by Dr. Ralph Heck, Senior Director McKinsey and not by Peter Wick. Peter Wick was suggested by Satora Beteiligungs GmbH and Helmut Meyer by Monolith Duitsland to replace Hans Jakob Zimmermann. Dr. Ralph Heck was proposed by the Zimmermann family. Peter Wick was not elected but Helmut Meyer and Dr. Ralph Heck.

At first glance it looks as if the conflict has been solved. We are still not quite sure about the next move. We think that Dr. Cammann wanted to replace after the so-called cooling-off period Hans Jakob Zimmermann who is over 73 years old by now as head of the supervisory board. Another reason might be the strategic positioning of the company. We think Dr. Cammann wanted to accelerate growth via acquisitions. This idea however was not shared by Mr. Zimmermann because of a possible capital increase and a dilution of his shareholding.

The latest AGM clearly indicated that the company has reached a turning point. The direction however is not yet clear. The difference between the two major shareholders of the company might become the trigger point for becoming a potential takeover. The profit warning and the share price decline is supporting our view.

Conclusions

Although management reiterated guidance for the current year we were not convinced about the operating performance and the profit warning supported our view. We therefore reduced our target price from €65 to €45 per share. The strong order intake and order backlog will improve the operating performance in 2017. In addition a possible takeover and the low P/Es will also reduce the downside risk for investors after the steep price decline.

**Recommendation unchanged
but target price reduced
substantially from €65 to €45**

Consensus (not revised yet) and fairesearch estimates			
	2016E	2017E	2018E
fairesearch EPS	0.87	3.60	3.97
Consensus EPS	0.80	2.71	3.28
fairesearch P/E	34.8	8.4	7.6
Consensus P/E	37.7	11.1	9.2

Source: fairesearch, I/B/E/S estimates

We expect the share price to hover around €30. Investors are disappointed about the recent profit warning which was not driven by the operating performance but by tidying up latest acquisitions and the project in Brazil (change of the business model). Investors will now focus on the financial years 2017 and 2018 whether the operating performance will gain traction again.

Second quarter results

Second quarter Q2`10 – Q2`16										
in €m	Q2`10	Q2`11	Q2`12	Q2`13	Q2`14	Q2`15	Q2`16	% +/-	Q1-Q2`16	% +/-
Revenues (in €m)	71.8	81.7	91.4	98.4	104.707	128.1	130.2	1.6%	247.7	5.1%
Mobile Transportation Technology	30.5	30.6	30.0	38.6	47.1	56.9	51.9	-8.7%	102.9	-5.6%
Stationary Transportation Technology	20.8	26.6	35.5	33.1	30.4	36.3	36.1	-0.4%	67.6	10.2%
Components	20.5	24.5	25.8	26.6	27.1	34.8	42.1	21.1%	77.0	18.3%
adjustments	0.0	0.0	0.0	0.0	0.0	0.2	0.0		0.1	
Changes	-0.1	1.1	-1.7	-0.8	1.3	2.5	-0.1		2.0	
Capitalized costs	0.4	0.1	0.1	0.6	0.9	0.9	0.9	2.1%	1.6	-1.5%
Total performance	72.2	82.9	89.9	98.1	106.9	131.5	131.0	-0.4%	251.3	2.6%
Material expenses	36.1	41.3	45.5	48.9	53.9	65.7	64.9	-1.1%	124.7	2.2%
Personnel expenses	21.9	23.6	27.4	29.8	33.9	39.0	42.2	8.0%	83.3	9.9%
Depreciation	1.6	1.6	1.8	2.3	2.3	2.8	3.8	37.0%	7.5	38.2%
Other income	1.7	0.7	0.9	0.9	0.7	1.2	2.2		3.4	7.3%
Other expenses	8.1	8.4	8.7	9.5	11.4	14.1	13.9	-1.2%	26.8	6.7%
Total expenses	66.0	74.2	82.5	89.6	100.8	120.4	122.6	1.9%	238.8	6.1%
EBITDA	7.8	10.3	9.2	10.9	8.4	13.9	12.2	-12.3%	19.9	-20.7%
EBITDA margin	10.8%	12.7%	10.0%	11.1%	8.0%	10.9%	9.4%		8.1%	
EBITA	6.1	8.7	7.4	8.6	6.1	11.2	8.4	-24.5%	12.4	-36.9%
EBITA margin	8.5%	10.7%	8.1%	8.7%	5.8%	8.7%	6.5%		5.0%	
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	
EBIT	6.1	8.7	7.4	8.6	6.1	11.2	8.4	-24.5%	12.4	-36.9%
EBIT margin	8.5%	10.7%	8.1%	8.7%	5.8%	8.7%	6.5%		5.0%	
Income/losses from at equity participations	0.4	0.5	0.4	1.0	0.5	-0.2	-0.6		-3.2	141.7%
Other financial results	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	
Total financials	0.41	0.54	0.40	0.86	11.09	2.25	-0.57	-125.2%	-3.22	
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.2		0.4	
Interest expense	-1.6	-2.4	-1.2	-1.2	-1.0	-1.1	-1.4	24.8%	-2.8	28.5%
Interest results	-1.6	-2.4	-1.2	-1.2	-1.0	-1.1	-1.2	10.7%	-2.4	16.8%
PBT	5.0	6.8	6.5	8.2	16.2	12.3	6.7	-46.0%	6.8	-63.8%
Taxes	0.9	1.2	1.3	2.0	1.2	2.2	1.8	-21.2%	3.2	-31.6%
Tax rate	18.0%	17.6%	19.2%	24.6%	7.6%	18.1%	26.4%		47.4%	
Profit after tax	4.07	5.63	5.29	6.20	14.95	10.10	4.9	-51.5%	3.57	-74.6%
Minorities	-0.61	-0.94	-1.0	-0.7	-1.3	-1.6	-1.7	6.1%	-2.8	-7.4%
Net reported profit	3.46	4.69	4.27	5.53	13.69	8.48	3.18	-62.5%	0.76	-93.1%
EPS reported profit	0.56	0.79	0.69	0.90	2.22	1.38	0.53	-61.7%	0.13	-93.0%

Source: fairresearch

Key ratios

Key ratios 2010-2018E									
Key ratios	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Revenues (€m)	280.4	318.4	362.8	390.7	429.6	496.7	532.1	559.9	586.0
EBITDA (€m)	30.1	34.7	37.0	45.1	38.3	49.5	32.4	51.4	54.5
EBIT (€m)	23.8	27.5	29.5	36.0	27.3	36.6	18.4	37.0	39.4
Net Profit (€m)	12.1	18.7	19.0	21.4	24.8	17.4	5.2	21.6	23.8
Margins									
EBITDA margin	10.8%	10.9%	10.2%	11.5%	8.9%	10.0%	6.1%	9.2%	9.3%
EBITA margin	8.5%	8.6%	8.1%	9.2%	6.4%	7.4%	3.5%	6.6%	6.7%
EBIT margin	8.5%	8.6%	8.1%	9.2%	6.4%	7.4%	3.5%	6.6%	6.7%
Return on equity	42.5%	35.7%	28.0%	27.0%	26.6%	18.2%	6.3%	21.8%	23.5%
ROCE (incl. goodwill)	26.3%	28.0%	23.6%	18.6%	17.3%	12.9%	8.1%	13.1%	13.5%
Balance Sheet									
Enterprise Value (EV)	161.9	202.4	256.9	330.6	428.3	497.8	381.0	381.5	381.6
Net Debt/(cash) (€m)	73.3	63.7	91.0	92.2	138.0	209.3	199.8	200.3	200.4
Capital Employed (avg.)	99.9	106.5	127.9	151.3	174.6	207.7	219.5	219.7	223.2
Net working capital(€m)	62.77	64.14	101.06	101.90	125.69	145.50	145.89	146.13	146.25
Shareholders equity(€m)	33.1	59.5	76.5	89.4	112.5	129.5	119.4	138.9	144.6
Equity/Total assets (%)	17.5%	27.9%	29.9%	33.4%	31.2%	28.5%	26.2%	28.4%	28.3%
Net debt/Equity (%)	43.7%	29.0%	33.2%	25.5%	29.0%	37.3%	47.0%	46.6%	46.1%
Capital Efficiency/Solvability									
Sales/CE (incl. goodwill) (x)	2.7	2.8	2.6	2.4	2.2	2.0	2.0	2.1	2.1
Sales/Fixed assets (x)	6.7	7.2	7.8	7.4	6.3	6.6	7.4	7.4	7.5
Sales/Net working capital (x)	4.5	5.0	3.6	3.8	3.4	3.4	3.6	3.8	4.0
Inventories/Sales (days)	65.8	68.8	74.4	63.1	71.8	64.2	60.0	57.0	54.5
Trade receivables/Sales (days)	59.2	54.1	65.9	61.0	67.3	79.3	77.1	76.1	75.4
Trade creditors/Sales (days)	23.6	22.6	21.0	19.3	26.4	27.7	27.9	28.5	29.2
CAPEX/Depreciation (%)	1.7	1.8	1.2	1.9	1.6	1.4	1.2	1.2	1.2
Interest cover (x)	3.8	4.2	5.7	7.4	6.1	6.6	3.5	7.2	7.9
Dividend payout (%)	16.9%	19.2%	25.0%	27.6%	24.8%	34.4%	46.1%	27.8%	26.5%
Tax ratio	16.8%	13.2%	14.6%	26.6%	17.4%	24.7%	24.9%	25.1%	25.3%
Valuation									
EPS (€)	2.16	3.13	3.09	3.48	4.04	2.90	0.87	3.60	3.97
EPS (€) fully diluted	2.03	3.13	3.09	3.48	4.04	2.90	0.87	3.60	3.97
CFPS (€)	3.01	4.33	4.31	4.96	5.83	5.04	3.20	6.00	6.48
DPS (€)	0.37	0.60	0.77	0.96	1.00	1.00	0.40	1.00	1.05
Book Value (€)	5.09	8.75	11.06	12.89	15.21	15.92	13.79	16.52	16.89
Adjusted Book Value (€)	4.19	7.02	9.18	11.04	10.03	7.24	5.11	7.84	8.21
P/E fully diluted	7.8	7.4	8.7	11.2	11.7	16.5	34.8	8.4	7.6
P/CF	4.8	5.4	6.3	7.8	8.1	9.5	9.4	5.0	4.7
P/Book	3.1	2.6	2.4	3.0	3.1	3.0	2.2	1.8	1.8
Dividend yield (%)	2.3%	2.6%	2.8%	2.5%	2.1%	2.1%	1.3%	3.3%	3.5%
EV/Sales (x)	0.58	0.64	0.71	0.85	1.00	1.00	0.72	0.68	0.65
EV/EBITDA (x)	5.37	5.84	6.94	7.34	11.20	10.06	11.76	7.42	7.00
EV/EBIT (x)	6.82	7.36	8.71	9.18	15.69	13.59	20.71	10.32	9.68
EV/Capital Employed (x)	1.62	1.90	2.01	2.19	2.45	2.40	1.74	1.74	1.71
EV/CE (incl. goodwill) (x)	1.54	1.77	1.85	2.03	2.18	1.99	1.40	1.40	1.39

Source: fairresearch, note: EV also includes pension provisions

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