



Schaltbau Holding AG

Reduce ↘ | Target 21.00 EUR vs 35.00 EUR ↘

Price (11/25/2016) : 30.69 EUR | Upside : -32 %

Est.chg	2016e	2017e
EPS	-71.0%	-21.8%

Dark clouds gathering, no dividend for 2016; ambitious 2017 outlook with disappointment potential – downgrading our rating and TP

Publication date 28.11.2016 17:30

Writing date 28.11.2016 16:05

Company again cuts its full-year guidance; DPS omission for 2016 a big disappointment; we downgrade to Reduce and TP of € 21(35)

After the profit warning on 5 September the company shocked us and the market once again on 9 November with a sales cut and strong profit warning for full-year 2016. Although the stock has fallen more than 40% ytd, we believe it is still too early to return to Schaltbau due to i) damaged investor trust, and ii) a lack of sales and earnings visibility for 2017 as cost issues (e.g. restructuring) and further write-downs are possible, which would have a further negative impact on earnings and the share price. Factoring our updated estimates into our valuation model (peer group multiples 2017e and 2018e), we now derive a new TP of € 21 (35). In this context we lower our recommendation from Neutral to Reduce.

Given Schaltbau's weak performance in recent quarters (sales in Q1-Q3 2016 of € 117m, € 130m, 117m respectively) and challenging market conditions in the current quarter, we consider the company's new full-year sales guidance of € 500m, implying Q4 16 sales of € 135m, as too ambitious. Thus we lower our full-year 2016 group sales estimate again, to € 493m (-0.7% yoy) from € 514m, after already reducing from € 530m on 8 September. We also consider the company's reduced EBIT target of € 10.2m (before: € 21m) too ambitious (our new estimate: € 8.1m). Hence, we see further disappointment potential for 2016.

Management plans to omit the dividend for 2016 (Oddo Seydler previous est.: € 0.40; new: € 0.00). This is a big disappointment and implies that the company, after selling off a major part of its treasury stock, has reached a critical point.

Low visibility on 2017 despite published full-year targets

After the company's recent management turmoil (CEO Mr Cammann stepped down, interim CEO (Mr Meyer) appointed for just six months), we believe the company's negative business trend is poised to continue in the quarters ahead, also given low visibility of demand from Schaltbau's customers. In our view, this increases the risk that the company could also miss its 2017 targets (group sales: € 550m; EBIT: € 27.5m; net profit: € 16.0m) due to the prospect of project delays in the rail sector (65% of total sales in 2015) and further weakness in the commercial vehicle industry (14% of total sales in 2015). We also see a risk of further write-downs, which are highly dependent on how business develops in the coming quarters. In our view, the market environment will not allow strong growth; flat growth is more likely. We apply a risk discount of ~11% to the company's group sales guidance for 2017, which puts us at € 487m (consensus: € 544m) and group EBIT of € 20.4m (consensus: € 28m).

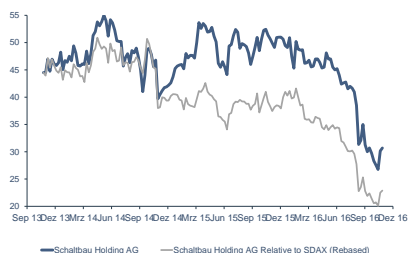
Hard to restore trust amid management turmoil

In our view, investors' trust in the company has taken a hit not only for the short term but also for the mid-term. It usually takes 9-18 months for a new CFO or CEO to make his mark on a company. New CFO Mr Dippold will start on 1 January 2017. A new, permanent CEO won't start for at least another six months. In the meantime the risks will remain, and it will be difficult to restore trust in top management.

Daniel Kukalj (Analyst)

+49 (69) 92 05 48 21

daniel.kukalj@oddoseydler.com



Capital			
SLT GY SLTG.DE			
Market Cap (EURm)			184
Enterprise value (EURm)			396
Extrema 12 months	26.50	-	52.35
Free Float (%)			76.3
Performance (%)			
	1m	3m	12m
Absolute	5.5	-25.5	-37.4
Perf. rel. Country Index	5.7	-25.6	-30.4
Perf. rel. SDAX			
P&L			
	12/16e	12/17e	12/18e
Sales (EURm)	493	487	506
EBITDA (EURm)	23.4	35.5	42.0
Current EBIT (EURm)	8.1	20.4	26.3
Attr. net profit (EURm)	1.3	11.8	15.5
Adjusted EPS (EUR)	0.22	1.96	2.58
Dividend (EUR)	0.00	0.40	0.60
P/E (x)	136.6	15.6	11.9
P/B (x)	1.9	1.6	1.4
Dividend Yield (%)	0.0	1.3	2.0
FCF yield (%)	ns	ns	ns
EV/Sales (x)	0.80	0.82	0.79
EV/EBITDA (x)	16.9	11.2	9.6
EV/Current EBIT (x)	48.7	19.5	15.3
Gearing (%)	126	117	106
Net Debt/EBITDA(x)	7.1	4.8	4.1

Next Events

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Peer group model

Peer Group: Multiples

	EV/EBITDA			EV/EBIT			PE		
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
Ansaldo STS	11.9	11.4	11.0	14.0	12.8	12.2	24.0	22.2	21.3
Faiveley Transport	11.8	10.9	10.2	14.5	13.2	11.9	20.1	18.2	15.9
Vossloh	12.1	10.3	9.0	21.7	16.8	13.8	55.2	25.2	19.9
Wabtec	13.2	12.8	12.7	15.0	14.2	13.9	21.5	20.8	19.9
Average	12.2	11.3	10.7	16.3	14.3	12.9	30.2	21.6	19.3
Median	12.0	11.1	10.6	14.7	13.7	13.0	22.7	21.5	19.9

EURm, except EPS (EUR)		EBITDA			EBIT			EPS		
		2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e
Financial estimates Oddo Seydler		23.4	35.5	42.0	8.1	20.4	26.3	0.22	1.96	2.58
Applied multiples: Peer group median		12.0	11.1	10.6	14.7	13.7	13.0	22.7	21.5	19.9
Enterprise value (derived)		281.1	395.7	444.7	119.9	280.6	341.3	-	-	-
+ Excess cash		30								
- Financial debt and minorities		-263								
Market capitalization (derived)		48.3	162.9	211.9	-112.9	47.7	108.4	30.7	253.7	308.4
Median		187.4								
Premium (discount) vs. Peer Group		-30%								
Fair market capitalization (after discount)		131.2								
Number of shares (m)		6.0								
Fair value per share (EUR)		21.83								

Source :Oddo Seydler; FactSet; Company

SLTG.DE | SLT GY

Capital Goods | Germany

Reduce

Price 30.69EUR

Upside -31.57%

TP 21.00EUR

PER SHARE DATA (EUR)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Adjusted EPS	3.04	3.09	3.48	4.04	2.90	0.22	1.96	2.58
Reported EPS	3.04	3.09	3.48	4.04	2.90	0.22	1.96	2.58
Growth in EPS(%)	-53.2%	1.7%	12.6%	16.0%	-28.1%	-92.3%	ns	31.4%
Net dividend per share	0.60	0.77	0.96	1.00	1.00	0.00	0.40	0.60
FCF to equity per share	1.34	-1.64	0.97	-0.12	-3.29	-2.83	-0.93	-0.31
Book value per share	8.51	10.19	12.89	15.21	15.92	16.34	18.65	21.28
Number of shares market cap	6.15	6.14	6.14	6.14	6.01	6.01	6.01	6.01
Number of diluted shares	6.15	6.14	6.14	6.14	6.01	6.01	6.01	6.01
VALUATION	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
12m highest price	27.96	31.28	46.97	56.14	54.45	52.35		
12m lowest price	18.40	22.77	30.71	38.50	41.59	26.50		
(*) Reference price	22.81	26.61	37.27	47.78	48.82	30.69	30.69	30.69
Capitalization	140	163	229	293	293	184	184	184
Restated Net debt	43.9	62.2	48.0	87.6	147	167	170	172
Minorities (fair value)	2.9	3.2	3.4	4.3	6.0	3.1	2.1	2.7
Financial fixed assets (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	22.1	37.7	36.5	43.0	41.4	42.2	42.6	43.1
Enterprise Value	209	266	316	428	487	396	400	402
P/E (x)	7.5	8.6	10.7	11.8	16.8	137	15.6	11.9
P/CF (x)	5.5	7.3	8.0	8.2	9.6	8.9	6.8	6.0
Net Yield (%)	2.6%	2.9%	2.6%	2.1%	2.0%	0.0%	1.3%	2.0%
FCF yield (%)	5.9%	ns	2.6%	ns	ns	ns	ns	ns
P/B incl. GW (x)	2.68	2.61	2.89	3.14	3.07	1.88	1.65	1.44
P/B excl. GW (x)	ns	ns	ns	ns	ns	ns	ns	ns
EV/Sales (x)	0.66	0.73	0.81	1.00	0.98	0.80	0.82	0.79
EV/EBITDA (x)	6.0	7.2	7.0	11.2	9.9	16.9	11.2	9.6
EV/EBIT (x)	7.6	9.0	8.8	15.7	13.3	48.7	19.5	15.3
(*) historical average price								
PROFIT AND LOSS (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales	318	363	391	430	497	493	487	506
EBITDA	34.7	37.0	45.1	38.3	49.5	23.4	35.5	42.0
Depreciations	-7.2	-7.5	-9.1	-11.0	-12.8	-15.3	-15.1	-15.7
Current EBIT	27.5	29.5	36.0	27.3	36.6	8.1	20.4	26.3
Published EBIT	27.5	29.5	36.0	27.3	36.6	8.1	20.4	26.3
Net financial income	-2.5	-3.5	-2.3	8.0	-5.5	-0.6	-1.9	-2.0
Corporate Tax	-3.3	-3.8	-9.0	-6.1	-7.7	-3.0	-4.6	-6.1
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	-2.9	-3.2	-3.4	-4.3	-6.0	-3.1	-2.1	-2.7
Attributable net profit	18.7	19.0	21.4	24.8	17.4	1.3	11.8	15.5
Adjusted attributable net profit	18.7	19.0	21.4	24.8	17.4	1.3	11.8	15.5
BALANCE SHEET (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Goodwill	10.4	11.6	11.3	31.8	52.2	52.2	52.2	52.2
Other intangible assets	20.0	22.9	24.2	52.5	82.9	80.2	77.6	74.9
Tangible fixed assets	44.0	46.7	52.9	68.7	75.7	80.3	84.9	89.6
WCR	48.0	81.6	75.7	103	130	151	167	183
Financial assets	20.4	26.8	28.2	28.0	41.8	41.8	41.8	41.8
Ordinary shareholders equity	52.4	62.5	79.1	93.3	95.7	98.2	112	128
Minority interests	7.2	8.6	10.3	19.2	33.9	33.9	33.9	33.9
Shareholders equity	59.5	71.1	89.4	113	130	132	146	162
Non-current provisions	29.0	44.6	43.7	52.4	53.9	54.8	55.2	55.6
Net debt	43.9	62.2	48.0	87.6	147	167	170	172
CASH FLOW STATEMENT (EURm)	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EBITDA	34.7	37.0	45.1	38.3	49.5	23.4	35.5	42.0
Change in WCR	-5.6	-22.7	-3.4	-7.4	-12.6	-20.5	-15.8	-15.0
Interests & taxes	-5.8	-7.3	-11.3	1.8	-13.2	-3.6	-6.6	-8.1
Others	-3.4	-7.3	-5.2	-4.3	-5.7	0.9	-1.7	-3.0
Operating Cash flow	19.8	-0.2	25.2	28.3	18.0	0.3	11.4	15.9
CAPEX	-11.6	-9.8	-19.3	-29.0	-37.8	-17.3	-17.0	-17.7
Free cash-flow	8.2	-10.0	6.0	-0.7	-19.8	-17.0	-5.6	-1.8
Acquisitions / disposals	0.2	0.0	0.0	0.4	0.1	0.0	0.0	0.0
Dividends	-2.1	-3.7	-4.7	-5.9	-6.0	-6.0	0.0	-2.4
Net capital increase	0.7	0.0	0.0	-7.3	69.6	0.0	0.0	0.0
Others	-10.1	4.6	-6.2	38.1	-38.9	21.1	-12.5	-12.3
Change in net debt	-4.7	-13.5	-10.3	12.0	-1.2	-23.8	-10.5	-9.3
GROWTH MARGINS PRODUCTIVITY	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Sales growth	13.5%	14.0%	7.7%	10.0%	15.6%	-0.7%	-1.3%	4.0%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	15.7%	7.3%	22.0%	-24.2%	34.2%	-77.8%	ns	28.8%
Growth in EPS(%)	-53.2%	1.7%	12.6%	16.0%	-28.1%	-92.3%	ns	31.4%
Net margin	5.9%	5.2%	5.5%	5.8%	3.5%	0.3%	2.4%	3.1%
EBITDA margin	10.9%	10.2%	11.5%	8.9%	10.0%	4.8%	7.3%	8.3%
Current EBIT margin	8.6%	8.1%	9.2%	6.4%	7.4%	1.7%	4.2%	5.2%
CAPEX / Sales	-2.7%	-2.6%	-4.3%	-5.5%	-4.4%	-3.5%	-3.5%	-3.5%
WCR / Sales	15.1%	22.5%	19.4%	24.1%	26.1%	30.6%	34.4%	36.1%
Tax Rate	13.2%	14.6%	26.6%	17.4%	24.7%	40.0%	25.0%	25.0%
Normative tax rate	13.2%	14.6%	26.6%	17.4%	24.7%	40.0%	25.0%	25.0%
Asset Turnover	2.8	2.5	2.4	2.0	1.7	1.4	1.3	1.3
ROCE post-tax (normative tax rate)	20.8%	17.7%	16.2%	10.7%	9.3%	1.4%	4.1%	5.1%
ROCE post-tax hors GW (normative tax rate)	22.3%	19.2%	17.4%	12.0%	10.8%	1.6%	4.8%	5.8%
ROE	46.2%	33.0%	30.2%	28.7%	18.5%	1.4%	11.2%	12.9%
DEBT RATIOS	12/11	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
Gearing	74%	87%	54%	78%	ns	ns	ns	ns
Net Debt / Market Cap	0.31	0.38	0.21	0.30	0.50	0.90	0.92	0.93
Net debt / EBITDA	1.26	1.68	1.06	2.29	2.96	7.11	4.80	4.09
EBITDA / net financial charges	13.7	10.6	19.8	-4.8	9.0	36.5	18.3	20.8

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Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
28.11.16	Reduce	21.00	30.69	Daniel Kukalj
08.09.16	Neutral	35.00	32.50	Daniel Kukalj
17.05.16	Buy	55.00	45.66	Daniel Kukalj

Recommendation split

		Buy	Neutral	Reduce
Our whole coverage	(414)	48%	42%	10%
Liquidity providers coverage	(154)	51%	44%	6%
Research service coverage	(67)	63%	34%	3%
Investment banking services	(38)	66%	32%	3%

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