



Schaltbau Holding AG

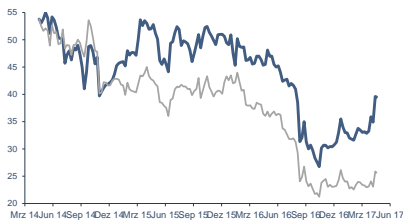
Neutral ↗ | Target 36.50 EUR vs 21.00 EUR ↗

Price (16/05/2017) : 39.51 EUR | Upside : -8 %

Turnaround now in the hands of new management

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Schaltbau Holding AG — Schaltbau Holding AG Relative to SDAX (Rebased)

Capital

SLT GY SLTG.DE	
Market Cap (EURm)	239
Enterprise value (EURm)	438
Extrema 12 months	26.50 - 48.12
Free Float (%)	ns

Performance (%)	1m	3m	12m
Absolute	20.2	23.6	-12.9
Perf. rel. Country Index	15.6	15.6	-26.3
Perf. rel. SDAX	11.7	12.9	-29.7

P&L	12/17e	12/18e	12/19e
Sales (EURm)	520	534	548
EBITDA (EURm)	28.8	35.5	43.0
Current EBIT (EURm)	15.9	21.3	27.0
Attr. net profit (EURm)	7.7	11.7	16.0
Adjusted EPS (EUR)	1.19	1.79	2.45
Dividend (EUR)	0.24	0.45	0.74

P/E (x)	33.2	22.0	16.1
P/B (x)	2.6	2.3	2.0
Dividend Yield (%)	0.6	1.1	1.9
FCF yield (%)	3.1	3.8	5.9
EV/Sales (x)	0.84	0.80	0.75
EV/EBITDA (x)	15.2	12.1	9.6
EV/Current EBIT (x)	27.5	20.1	15.2
Gearing (%)	83	67	51
Net Debt/EBITDA(x)	4.2	3.1	2.2

Next Events

18.05.2017	Q1 Results
08.06.2017	AGM
17.08.2017	H1 Results
16.11.2017	Q3 Results

We upgrade Schaltbau from Reduce to Neutral and raise our target price to € 36.5 (€ 21). The company has heavily restructured at the end 2016 and 2017 ytd, and with the new management team complete since 1 April, more restructuring measures will follow in 2017e. We expect to see first positive effects from turnaround measures in Q2 with a return to net profitability in H2 2017e at the latest. We forecast Schaltbau's EBIT margin to improve from 3.1% in 2017e to 5.6% by 2020e.

Restructuring taking shape

With the new management team now in place under an improved financial set up, we estimate revenue to grow in 2016-19e at a CAGR of 2.5% accompanied by EBIT margin improvement to 4.9% in 2019e. Since Schaltbau's markets are more competitive than in the past, we are cautious with our estimates; moreover there may be additional one-offs incurred in 2017e that we don't know of yet.

Weak Q1-17 prelims as anticipated – full year guidance confirmed

Schaltbau will release its final figures for Q1 2017 tomorrow (18 May), which are unlikely to depart from the preliminary results (12 May). The prelims were weak as expected, mainly hit by further one-off charges of c.€ 2-3m for debt refinancing. Revenues were down 6.3% yoy to c.€ 111m; EBIT swung to a loss of € -8.5m (Q1 16: € 2.6m); and the Q1 2016 net loss of € -2.6m deepened to € -12.3m. Order intake was strong, however, rising 9.5% yoy (Q1 2016: € 156m), and orders on hand increased 14.3% vs YE 16 (€ 551m). As expected, management reiterated its guidance for the full year 2017 (our est.: sales of € 520-540m, EBIT margin of 3-4%). Q1 is generally one of the company's weaker quarters, so due to seasonal effects, the non-recurrence of the refinancing charge, and the progressive emergence positive restructuring effects, we expect steady improvement in the remainder of the year.

Our outlook for the remainder of 2017e

We expect Schaltbau to improve its results in the remainder of 2017e and turn earnings-positive in H2 2017 at the latest. We thus revise our full-year 2017e sales expectations from € 487m to € 520 (+2.2% yoy) and EBIT from € 20.4m to € 16m (EBIT margin of 3.1% vs. formerly c.4.0%). For the bottom line we estimate 2017e EPS of € 1.19 (1.96).

Given the new management, the complex projects it is tackling, and the new strategy it will implement, there may be further one-offs in 2017e which we cannot foresee.

Ex-CEO still fighting for control

Former CEO Dr. Cammann and his allies, which hold a combined stake in Schaltbau of c.11%, made a bid to purchase newly issued stocks on Thursday, 11 May. This could be the next round in the battle for control of the company. Supervisory board chairman Mr. Zimmermann, with a stake of c.10%, is supported by the new management and is determined not to relinquish power to Cammann. They want to focus on turning around the company. The share price is likely to be volatile around the AGM as a new battle for control of the company emerges.

DCF valuation justifies TP increase to € 36.50

Our primary valuation approach is our DCM model. Applying a WACC of 7.2%, a beta of 1.1 and a terminal growth rate of 1.5%, we derive a fair value per share of € 36.44 and raise our TP € 36.5 (€ 21). With downside of 8% we raise our rating to Neutral.

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SWOT ANALYSIS

Strengths

- Global expertise on and collaboration with OEMs
- High-quality products, technological leader
- Globally leading player in several niche segments
- High order backlog

Weaknesses

- Low visibility on tender offers
- Project management risk (Brazil, Denmark, Egypt) possibly including further the risk of project delays/write-offs
- Excessive staff capacity being absorbed by M&A activities
- Cost burden from the turnaround of unprofitable holding companies
- Need to maintain high R&D spending

Opportunities

- Growing need for rolling stock due to megatrends: population growth, urbanization, environmental protection, and connectivity
- M&A opportunities in a consolidating market
- Expansion in new markets (especially braking systems and light trains for cities)
- Potential to cross-sell and combine Schaltbau products
- Standardization, miniaturization, and modulation of components with the trend among OEMs to do business with systems integrators

Threats

- Decline in demand / public spending cuts
- Economic decline may hurt exposure to high-margin capital goods business
- Ongoing pricing pressure in the market
- Large competitors may gain market share
- Financing problems at customers
- Trend to local content/protectionism
- Regulatory changes
- Further project delays and one-offs due to re-evaluation under new CEO
- Integration risks related to holding companies
- Quality of legacy order backlog



VALUATION

We base our target price on a DCF model and cross-check it with a multiple approach (EV/EBITDA and P/E). A multiple-based valuation approach does not include the impact of the company's current restructuring phase, it does not deliver suitable values. In its recent capital increase (Thursday, 11 May) the company issued shares at € 34, suggesting that the market is tending toward an EV/Sales or DCF valuation with a longer-term perspective. Hence, we use a DCF model to value Schaltbau. On this basis we raise our TP to € 36.5 (21).

DCF model

Our DCF model reflects our cautious stance regarding the company's long-term cash generation. Given the financial restructuring and the current restructuring process, we make the following assumptions: i/ Schaltbau can at least maintain its leading market positions, and sales growth in line with the market, ii/ unprofitable business units (Albatros, Alte, SPI) become profitable via restructuring, and iii/ M&A activities are not included in our model.

Phase 1 cash flows (2017e-19e): We estimate sales in line with market growth of 2.5%. The EBIT margin hit its low point 2016 (-2.8%) and increases slightly to 3.1% in 2017e. We expect depreciation of € 12.9m, not taking potential one-offs into account. A fade out of restructuring costs and growing positive impact of the restructuring measures should help to lift the EBIT margin to 6.4% in 2022e.

Phase 2 (2020e-26e): sales grow at CAGR 2017-21e of 2.5%, 2% from 2022-26e. The EBIT margin rises from 5.6% (2020e) to its final level of 7.0% (2026e).

Phase 3 (terminal value): Here we assume a long-term FCF growth rate of 1.5%.

Our DCF model includes a WACC of 7.20%, a risk-free rate of 0.78% and a target equity ratio of 75%. The equity risk premium is 7.23% and the debt risk premium is 3.5%.

Schaltbau Holding: our DCF model

	PHASE 1			PHASE 2						PHASE 3	
	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	∞
Sales	520.2	534.2	548.1	562.3	577.0	588.5	600.3	612.3	624.5	637.0	
Y-o-Y growth	2.2%	2.7%	2.6%	2.6%	2.6%	2.0%	2.0%	2.0%	2.0%	2.0%	
EBIT	15.9	21.3	27.0	31.6	33.7	37.9	39.3	40.7	42.5	44.6	
EBIT margin	3.1%	4.0%	4.9%	5.6%	5.8%	6.4%	6.6%	6.6%	6.8%	7.0%	
Income tax on EBIT	-3.6	-4.9	-6.3	-7.5	-8.0	-9.1	-9.5	-9.8	-10.3	-10.8	
Depreciation and amortisation	12.9	14.3	15.9	17.5	18.8	19.6	20.4	21.4	21.9	22.3	
Change in net working capital	0.5	-3.2	-3.2	-3.3	-3.4	-2.7	-2.7	-2.8	-2.8	-2.9	
Net capital expenditure	-18.2	-18.7	-19.2	-19.7	-20.2	-20.6	-21.0	-21.4	-21.9	-22.3	
Free cash flow	7.5	8.7	14.2	18.6	20.9	25.2	26.6	28.1	29.5	30.9	
Present values	7.1	7.7	11.8	14.3	14.9	16.8	16.5	16.2	15.8	15.4	274.0
Present value Phase 1	26.6										
Present value Phase 2	109.7										
Present value Phase 3	274.0										
Total present value	410.4										
+ Excess cash/Non-operating assets	45.6										
- Financial debt	-218.2										
Fair value of equity	237.9										
Number of shares (m)	6.5										
Fair value per share (in EUR)	36.44										

Risk free rate	0.78%	Target equity ratio	75%
Equity risk premium	7.23%	Beta	1.1
Debt risk premium	3.50%	WACC	7.20%
Tax shield (Phase 3)	30.0%	Terminal growth	1.50%

Sensitivity analysis					
Terminal growth rate					
	0.5%	1.0%	1.5%	2.0%	2.5%
6.20%	41.49	46.14	51.78	58.77	67.64
6.70%	35.18	38.91	43.37	48.77	55.45
WACC 7.20%	29.82	32.86	36.44	40.70	45.87
7.70%	25.22	27.73	30.64	34.06	38.14
8.20%	21.23	23.32	25.72	28.51	31.78

Table 1 – Oddo Seydler Bank AG estimates

We derive a fair value of € 36.44 per share, and set our target price at € 36.50. Since this leaves less than 10% downside to the current share price, we raise our rating from Reduce to Neutral. Based on our revised estimates for 2017e and 2018e, we calculate the following target multiples:

Target multiples – based on 2018e and 2019e estimates

	2018e	2019e
EV/Sales	0.8	0.8
EV/EBITDA	12.1	9.6
EV/EBIT	18.4	14.1
P/E	22.2	16.2

Table 2 – Oddo Seydler Bank AG estimates

Multiple valuation approach

Schaltbau's diversified product portfolio makes it difficult to find direct peers that are comparable in terms of business model, size and growth prospects. Our peer group consists of a broad, global selection of 15 companies in the railroad and rolling stock industry, e.g. rolling stock engineering companies (like American Railcar, CAF, Talgo), equipment manufacturers (e.g. Beijing Dinghan, Greenbrier, and Vossloh), and other mass-transit suppliers (e.g. Ansaldo, Westinghouse).

Schaltbau peer group company profiles

Company	Company description
Ansaldo STS SpA	Ansaldo STS SpA designs and constructs parts of, or entire, mainline and urban electrified mass transit systems.
American Railcar Industries, Inc.	American Railcar Industries, Inc. manufactures railroad rolling stock. The Company produces and repairs covered hopper and tank railcars, and offers fleet management services. American Railcar markets its products to companies that lease the cars to third parties, shippers, and railroads.
Beijing Dinghan Technology Co., Ltd.	Beijing Dinghan Technology Co., Ltd. develops, manufactures and sells electrical equipment for rail transit electricity systems. The Company also provides related technical support services.
Construcciones y Auxiliar de Ferrocarriles, S.A.	Construcciones y Auxiliar de Ferrocarriles SA manufactures railroad cars and components, and complete turnkey transportation systems. Exports are increasingly important to the Company, with customers in the UK, Finland, Poland Hong Kong, Brazil and elsewhere. Domestically, the Company has, and will, supply rolling stock to the Madrid and Bilbao subway systems.
FreightCar America, Inc.	FreightCar America Inc. designs and manufactures aluminium and steel-bodied freight cars and refurbishes and sells replacement parts for railcars. Its primary customers are leasing companies, utilities, and railroads.
Greenbrier Companies, Inc.	The Greenbrier Companies, Inc. supplies transportation equipment and services to the railroad and related industries. The Company's manufacturing segment produces railcars and marine vessels. Greenbrier also provides repair and refurbishment for intermodal and conventional railcars. In addition, the Company provides complementary leasing and services activities.
Newag SA	Poland-based Newag S.A. specializes in the production, maintenance, repair and modernization of rail vehicles.
Titagarh Wagons Limited	Titagarh Wagons Ltd. manufactures railroad cars. The Company produces railway wagons, Bailey bridges, earth moving and mining equipment, and steel and iron castings.
Talgo SA	Talgo S.A. is a Spain-based specialized rolling stock engineering company focused on the designing, manufacturing and servicing of lightweight trains.
Trinity Industries, Inc.	Trinity Industries, Inc. manufactures transportation, construction, and industrial products. The Company's products include tank and freight railcars, inland hopper and tank barges, highway guardrail and safety products, ready-mix concrete, and other products. Trinity markets its products internationally.
Voestalpine AG	voestalpine AG produces, processes, and distributes steel products. The Company supplies flat and long steel products to the automotive, household appliance, railroad equipment, and oil and gas industries.
Vossloh Aktiengesellschaft	Vossloh AG manufactures and markets railroad equipment. The Company produces rail fasteners, rail switch systems, diesel locomotives, and locomotive components. Vossloh also offers rail construction, maintenance services, electrical systems for trains, and train protection and warning equipment. The Company operates worldwide.
	(Table continued on following page)
Westinghouse Air Brake Technologies Corporation	Wabtec Corporation, doing business as Westinghouse Air Brake Technologies Corporation, provides technology products and services for the rail industry on a worldwide basis. The Company manufactures a range of products for locomotives, freight cars, and passenger transit vehicles. Wabtec also builds new locomotives and provides aftermarket services.
Zhuzhou CRRC Times Electric Co., Ltd.	Zhuzhou CRRC Times Electric Co Ltd provides and integrates train-borne electrical systems for the PRC Railway industry. The Company also develops, manufactures, and sells train power converters, auxiliary power supply equipment and control systems for trains for urban rail systems.
ZUE S.A.	Zue SA designs and constructs rail, tram, and metro transport infrastructure. The Company activities include general contracting, full service construction, and accompanying infrastructure, including earthworks and construction of subgrade, drainage systems and facilities engineering and cubature, including stations.

Table 3 – Bloomberg data, Oddo Seydler Bank AG estimates

To derive fair values for Schaltbau' share price, we multiplied peer-group-average EV/EBITDA and P/E multiples by our EBITDA and EPS estimates for the years 2018e and 2019e (see table on next page). The following table provides an overview of the peers and their current trading multiples.

Schaltbau peer group multiple overview

	Ticker	Price	Mkt Cap	EV/EBITDA		EV/EBIT		P/E		EV/Sales	
				2018e	2019e	2018e	2019e	2018e	2019e	2018e	2019e
Ansaldo STS SpA	STS IM	12.46	2,492	12.7x	12.1x	14.4x	13.8x	24.9x	23.5x	1.7x	1.7x
American Railcar Industries, Inc.	ARII US	37.43	714	7.5x	-	12.1x	-	14.4x	-	1.7x	-
Construcciones y Auxiliar de Ferrocarril	CAF SM	36.88	1,264	7.1x	6.4x	8.6x	7.6x	12.2x	12.5x	0.7x	0.7x
FreightCar America, Inc.	RAIL US	17.70	220	12.3x	2.6x	-	-	-	10.9x	0.6x	0.3x
Greenbrier Companies, Inc.	GBXEUR E	42.23	1,199	4.6x	-	6.0x	-	14.8x	20.0x	0.6x	-
Newag SA	NWG PW	17.00	765	7.9x	5.7x	10.7x	7.2x	12.1x	8.5x	0.8x	0.7x
Titagarh Wagons Limited	TWL IN	128.60	14,842	12.0x	8.7x	17.4x	12.3x	36.7x	24.0x	0.9x	0.8x
Talgo SA	TLGO SM	5.44	744	6.5x	6.2x	7.8x	7.3x	11.4x	10.6x	1.3x	1.3x
Trinity Industries, Inc.	TRN US	26.90	4,093	8.8x	-	14.3x	-	23.4x	-	1.1x	-
Voestalpine AG	VOE AV	38.20	6,737	6.1x	5.6x	11.3x	10.1x	11.3x	10.4x	0.6x	0.6x
Vossloh Aktiengesellschaft	VOS GR	61.60	984	8.9x	8.1x	13.8x	12.0x	22.8x	20.1x	0.9x	0.9x
Westinghouse Air Brake Technologies	CWAB US	80.11	7,687	12.4x	10.7x	14.2x	-	17.1x	15.1x	1.8x	1.7x
Zhuzhou CRRC Times Electric Co., Ltd.	3898 HK	41.05	48,253	8.7x	7.5x	9.4x	8.2x	12.1x	11.0x	2.4x	2.1x
ZUE S.A.	ZUE PW	12.40	286	7.3x	-	10.1x	-	13.5x	-	0.4x	0.3x
Peer average			6,449	8.8x	7.3x	11.5x	9.8x	17.4x	15.1x	1.1x	1.0x
Peer median			1,232	8.3x	6.9x	11.3x	9.1x	14.4x	12.5x	0.9x	0.8x

Table 4 – Bloomberg data, Oddo Seydler Bank AG estimates

Based on our 2018e EBITDA estimate the shares are trading at an EV/EBITDA multiple of 12.1x (Bloomberg peer-group median multiple: 8.3x)

The chart below shows how far above its historical EV/EBITDA trading range the shares are currently trading, i.e. 11.1x versus a historical range between 6.6x and 8.0 (FactSet data).

Schaltbau EV/EBITDA trading range



Table 5 – Source: Factset data

Multiplying the peer-average and peer-median multiples for Schaltbau by our earnings estimates for 2018e and 2019e, we arrive at the following enterprise values.

Schaltbau: peer group valuation

	EV/EBITDA		EV/EBIT		P/E		EV/Sales	
	2018e	2019e	2018e	2019e	2018e	2019e	2018e	2019e
Peer group average	8.8x	7.3x	11.5x	9.8x	17.4x	15.1x	1.1x	1.0x
Peer group median	8.3x	6.9x	11.3x	9.1x	14.4x	12.5x	0.9x	0.8x

Oddo estimates	EBITDA		EBIT		EPS		Sales	
Schaltbau Holding - ODDO Seydler estimates	35.5	43.0	21.3	27.0	1.92	2.63	534.22	548.09
Schaltbau EV value (derived from average)	311.7	315.7	245.6	264.5	33.4	39.8	591.1	550.7
Schaltbau EV value (derived from median)	294.5	298.3	240.0	246.2	27.6	32.8	489.7	412.8

From DCF model	EV/EBITDA		EV/EBIT		P/E		EV/Sales	
+ Excess cash/Non-operating assets	45.6							
- Financial debt	(218.2)							
- Minorities	(38.9)							
Fair value of equity (average)	100.3	104.3	34.2	53.1			379.7	339.2
Fair value of equity (median)	83.1	86.9	28.6	34.8			278.3	201.4
Number of shares (m)	6.53	6.53						
Fair value per share (in EUR) average	15.36	15.98	5.24	8.13	33.44	39.82	58.16	51.97
Fair value per share (in EUR) median	12.72	13.31	4.38	5.33	27.61	32.83	42.64	30.85

Table 6 – Bloomberg data, Oddo Seydler Bank AG estimates

In our view, A multiple-based valuation approach does not include the impact of the company's current restructuring phase and thus (except for EV/sales and P/E), does not explain the current share price level. The valuation gap between EV/earnings and EV/Sales multiples (gap: € 54 per share), expresses the value of restructuring if successful, namely a margin improvement by more than 100%. This margin improvement is too far in the future to be included in EV/EBITDA and EV/EBIT multiples. In our DCF model we cautiously assume this margin (7.0%) is achieved in 2026e.



MARKET FOR RAILWAY EQUIPMENT

Global rail technology market growing at a CAGR 2013-21 of (just) 2.6%

According to a study by Roland Berger and unife (UNIFE World Rail Market Study 2016), the world market for rail supply is forecast to grow at a CAGR 2013-21e of 2.6%. This growth rate varies slightly from market segment to market segment and from geography to geography.

The market for rail technology is supported by a number of megatrends, including population growth and mass urbanization, environmental awareness, liberalization of domestic markets in many European countries as well as digitalization.

Some of Schaltbau's geographic markets, especially China and the US, are becoming more protectionist and are giving national companies undue preference over international players, and despite the fact that Schaltbau has already achieved certifications in several geographies. Here we should note that Schaltbau's China business provides high margins in the Component segment (Xi'an), as the company stressed in Q3-16, so that any loss of Chinese business would be especially problematic for Schaltbau's earnings performance.

While many governments are making big infrastructure investments, these are not necessarily beneficial to Schaltbau. Germany for example, made major infrastructure investments in 2016 and plans to do so again in 2017, but these investments are partly in "pure infrastructure", e.g. bridges and tunnels, which is not Schaltbau's business. Although many projects and tenders have been announced for light trains (Light Rail Transit) to urbanization and environmental concerns, Schaltbau manufactures relatively few light train components (as opposed e.g. to high-speed trains) at present.

As Schaltbau operates worldwide in all of its segments, we believe our assumption of organic growth in line with the market is appropriate. Schaltbau has announced that it will focus in the future on "strategic acquisitions [which] will focus primarily on strengthening Schaltbau's expertise and placing the Schaltbau Group in the best possible position to meet the technological challenges arising in the markets in which it operates". (AR 2016, p.13).



BATTLE FOR CONTROL

With former CEO Dr. Cammann's offer to purchase newly issues shares at € 36, the conflict between him and supervisory board chairman Zimmermann, has entered the next round. This issue should lead to higher volatility in the share price around the annual general meeting.

Two opposing camps

On the one side we have former Schaltbau CEO Dr. Cammann, represented by his wife's foundation Satora, which works together with AOC Active Ownership Capital. Before the capital increase (announced on 11 May, completed 16 May) this group held 11.21% stake in Schaltbau.

Last week (11 May), Dr. Cammann and his allies offered to buy up to 10% of newly issued shares at a price of € 36 per share. This group had previously filed a motion for the annual shareholder meeting to dismiss supervisory board members Mr Zimmermann, Dr Heck and Dr Smaxwil and to bring in Mr Knitter from Alstom, Mr Schuhbauer and Mr. Röhrig (both from AOC).

On the other side, there is Mr. Zimmermann, head of Schaltbau's supervisory board, with a stake of c.10%. Schaltbau's management and its supervisory board are working closely together to oppose the petition. They argue that i/ supervisory board members are elected for several years, ii/ Supervisory board continuity is important, especially considering the complete change of management and its need to clean up old problems, which are attributable to former CEO Dr. Cammann, and iv/ the supervisory board members in question represent all shareholders, so why should the Dr. Cammann and his allies, with a combined interest of 11%, command so much weight?

As the battle for control heats up the general meeting promises to be entertaining and lots of fireworks. Nevertheless, we share the opinion of the management, i.e. it would not be favourable for Schaltbau to allow its former CEO to increase his influence in the company, and that the best thing for management to do would be to focus on cleaning up the company legacy problems.

FINANCIAL SITUATION

Restoring the equity ratio is one of the new management's main goals. Losses in previous years, especially 2016, drove down Schaltbau's equity ratio to a low of 23.3% at YE 2016. The equity ratio improved as a result of the recent capital increase (proceeds of c.€ 16m), but probably decreased as a result of the operating loss indicated by the preliminary Q1-17 figures.

As we assume the company will return to net profitability in 2017e and remain profitable going forward, we estimate that the equity ratio will improve to 32.7% in 2019e, in line with management's medium-term equity ratio target of 30-35%. With operating results improving and revenues continuing to grow, the equity ratio is likely to improve further beyond 2019e.

Our equity ratio forecast

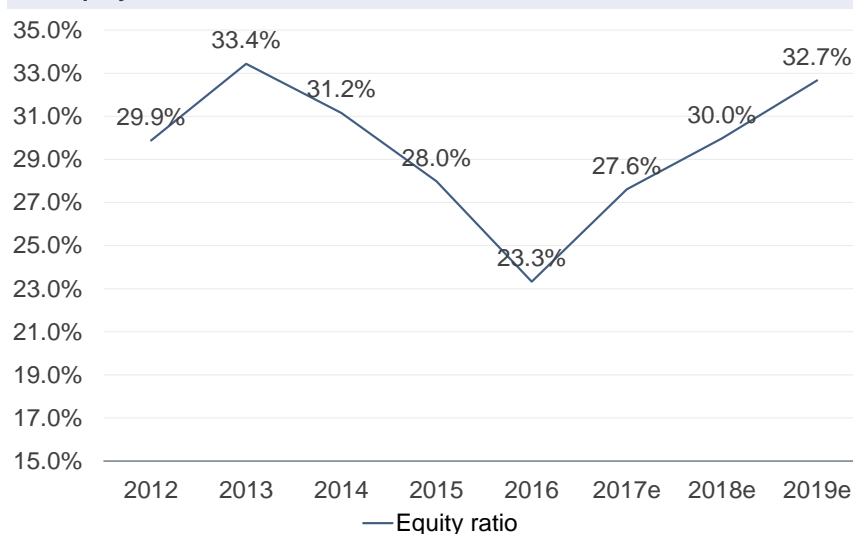


Table 7 – Schaltbau Holding AG, Oddo Seydler Bank AG estimates

We also expect Schaltbau's gearing (interest-bearing debt/equity) and its net debt to equity ratio to improve significantly, from 1.7 and 1.4 respectively in 2016 to 1.1 and 0.5 in 2019e. Driven by growing free cash flow and the resultant reduction in financial debt, we also expect further improvement in the years beyond 2019e.

Debt to equity

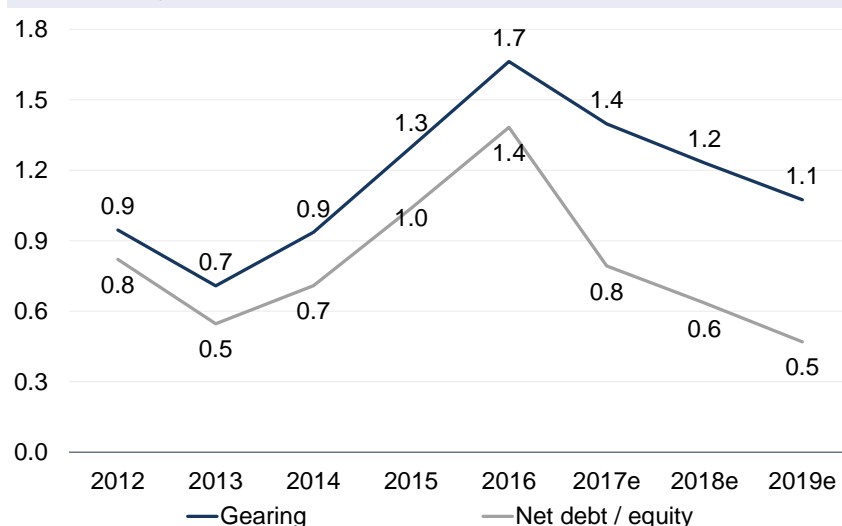


Table 8 – Schaltbau Holding AG, Oddo Seydler Bank AG estimates

The ratio of operating profit (EBITDA) to financial debt should improve as well. This ratio indicates the number of years at the current EBITDA level the company will need to fully repay financial debt or net debt. After strong levels in 2015 (3.5 and 2.8 respectively), this metric deteriorated sharply to 10.9 and 9.1 in 2016. For 2017e we expect these two ratios to recover to 7.1 and 4.0 respectively, followed by further improvement thereafter driven by gradual earnings improvement including, we estimate, improvement in the EBITDA margin from 5.5% in 2017e to >7% in 2019e.

Negative (non-cash) one-offs in 2016 caused Schaltbau to breach one of its debt covenants (debt/EBITDA). As a result of this breach the company was required to reclassify long-term liabilities as short-term liabilities, which raised its short-term liabilities from € 15.4m to € 134.7m at YE 2016. After this debt was restructured under Mr. Dippold's leadership, debt maturities are now realigned with long-term assets as before was restored (since we just look at the sum of short and long term debt, the maturity matching aspect does not show up in the following graph).

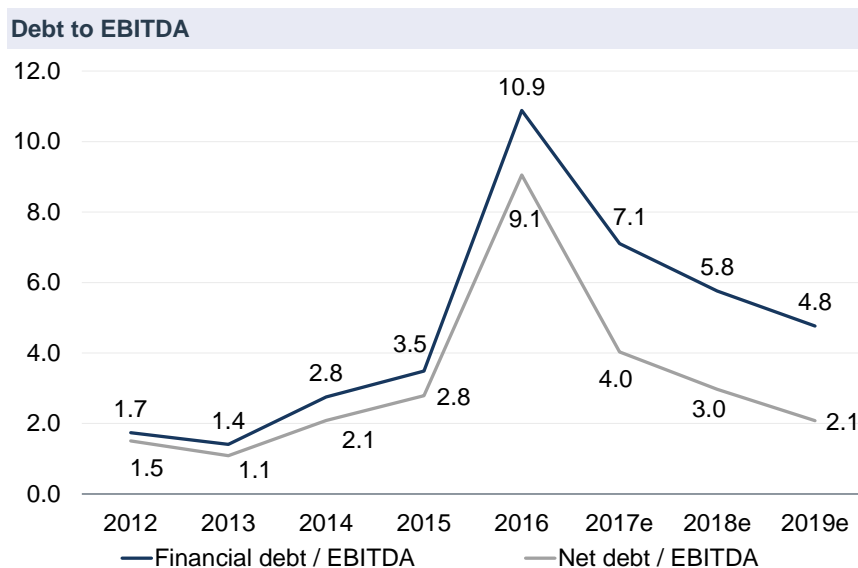


Table 9 – Schaltbau Holding AG, Oddo Seydler Bank AG estimates

Another capital increase or segment disposal would provide an addition safety cushion

We understand the company's goal to strengthen its equity base (target: 30-35%) to imply one of two things: i/ a capital increase/issuance of new shares or ii/ the disposal of a segment. The recent capital increase (11 May) raised proceeds of c.€ 16m. However, we see indications that the company may do a second capital increase. i/ Management aims to gain shareholder authorisation to issue new shares at its AGM (up to a 50% increase in shares outstanding, 10% excluding subscription rights of existing shareholders. This latter aspect would target dilution of existing shareholders and bringing in a new major investor.). ii/ We believe the new management could find more skeletons in the closet to eliminate this year, so that a capital injection would provide an additional safety cushion. iii/ In general an equity injection or a segment disposal could be used to speed up debt paydown or growth.

APPENDIX 1: COMPANY PROFILE

Schaltbau Holding AG and its subsidiaries develop, manufacture and distribute high-quality components and systems for transportation technology and the capital goods industry. It focuses on the development of long-lasting products in niche markets. The company has a broad product portfolio and its products used all over the world. Its main customer include large corporates such as Siemens, Deutsche Bahn, Bombardier and Volkswagen. For example, Schaltbau equipped Deutsche Bahn’s ICE trains with door systems and several other component systems.

Schaltbau divides its operating activities into three segments: i/ Mobile Transportation Technology, ii/ Stationary Transportation Technology, and iii/ Components. The company operates through its established and long-standing subsidiaries Bode Group, ALTE Technologies, Albatros, Pintsch Bamag Group, Pintsch Tiefenbach Group, Pintsch Bubenzer Group, Schaltbau GmbH Group and SPII S.P.A. (see diagram below) Additionally, the above companies hold subsidiaries that are located throughout the world, e.g. in North America, UK, France, Poland, Turkey, India and China.

Corporate structure (main group companies)

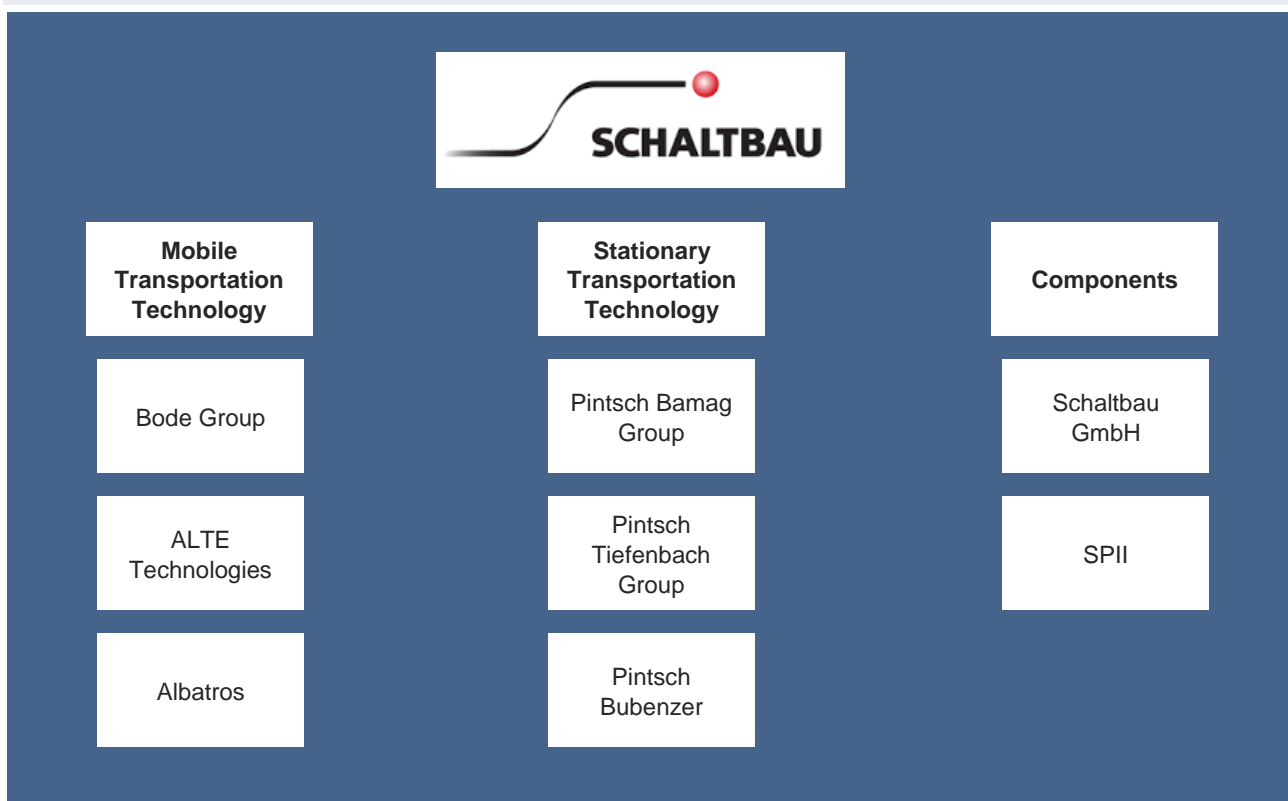


Table 10 – Schaltbau Holding AG, Oddo Seydler Bank AG

Schaltbau Holding AG is a financial holding company. The above diagram shows the corporate structure and its three segments Mobile Transportation Technology, Stationary Transportation Technology and Components. The segments are further structured into business fields or subgroups (Door Systems, Rail Infrastructure, Brake Systems and Electromechanical Components).



APPENDIX 2: REVENUE STRUCTURE

Schaltbau generates its revenues in the transportation, automobile and capital goods industries. The bulk of its revenues (65% of total) come from the rail industry, followed by the capital goods industry (22%) and the car industry (13%). The right pie chart below provides a geographic revenue split of its sales. The lion's share (34%) is generated in Germany or with Germany-based companies, followed by EU countries excluding Germany (37% combined), and the rest of the world (29%), of which around China accounts for 15%.

2016 Revenue distribution by industry and geography

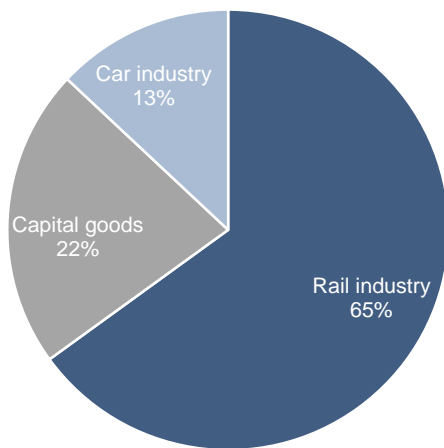


Table 11 – Schaltbau Holding AG

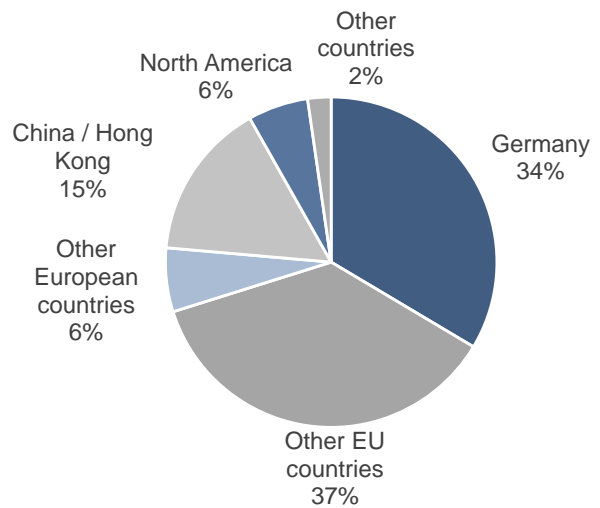


Table 12 – Schaltbau Holding AG

Recap of 2016: a difficult year ends

On 26 April, Schaltbau presented its final 2016 figures, which were in line with the preliminary figures released in February: order intake up +7.7% to € 551m, revenue up 1.4% to € 509m, and an EBIT loss of € -15.4m due to negative one-offs related to i/ the Platform Screen Doors (PSD) project in Brazil (€ -22.2m); international railroad crossing projects (€ -7.9m), and goodwill impairment on the Pintsch Bamag holding (€ -1.6m). No dividend will be paid for 2016.



- **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

- **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

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

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).

- **The prices of the financial instruments used and mentioned in this document are the closing prices.**

- **All publications by Oddo Securities or Oddo Seydler concerning the companies covered and mentioned in this document are available on the research site: www.oddosecurities.com**

Recommendation and target price changes history over the last 12 months for the company analysed in this report

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
16.05.17	Neutral	36.50	39.51	Felix Lutz
28.11.16	Reduce	21.00	30.50	Daniel Kukalj
08.09.16	Neutral	35.00	32.50	Daniel Kukalj

Recommendation split		Buy	Neutral	Reduce
Our whole coverage	(422)	47%	44%	9%
Liquidity providers coverage	(155)	48%	46%	5%
Research service coverage	(67)	51%	46%	3%
Investment banking services	(44)	64%	32%	5%

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Disclosure to Company	
Has a copy of this report ; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
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SLTG.DE | SLT GY
Capital Goods | Germany

Neutral

Price 39.51EUR

Upside -7.62%

TP 36.50EUR

	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
PER SHARE DATA (EUR)								
Adjusted EPS	3.09	3.96	4.57	2.86	-2.85	1.19	1.79	2.45
Reported EPS	3.09	3.48	4.04	2.80	-2.61	1.19	1.79	2.45
Growth in EPS(%)	1.7%	28.0%	15.3%	-37.4%	ns	ns	50.4%	37.0%
Net dividend per share	0.77	0.96	1.00	1.00	0.00	0.24	0.45	0.74
FCF to equity per share	4.09	2.26	-2.04	-1.93	-6.02	1.23	1.51	2.33
Book value per share	11.06	12.89	15.21	15.20	12.13	15.41	17.33	19.80
Number of shares market cap	6.14	6.14	6.14	6.07	6.07	6.49	6.53	6.53
Number of diluted shares	6.14	6.14	6.14	6.07	6.07	6.49	6.53	6.53
VALUATION	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
12m highest price	31.28	46.97	56.14	54.45	52.35	39.85		
12m lowest price	22.77	30.71	38.50	41.59	26.50	30.52		
(*) Reference price	26.61	37.27	47.78	48.82	41.02	39.51	39.51	39.51
Capitalization	163	229	293	296	249	256	258	258
Restated Net debt	55.7	49.9	81.7	133	152	121	112	96.4
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	15.2	13.0	27.1	7.2	9.8	12.4	15.2	18.0
Provisions	37.2	43.8	52.5	58.7	68.1	72.7	74.1	75.5
Enterprise Value	241	309	400	481	459	438	428	412
P/E (x)	8.6	9.4	10.5	17.1	ns	33.2	22.0	16.1
P/CF (x)	5.6	6.8	4.7	7.0	10.6	8.9	7.5	6.4
Net Yield (%)	2.9%	2.6%	2.1%	2.0%	0.0%	0.6%	1.1%	1.9%
FCF yield (%)	15.4%	6.1%	ns	ns	ns	3.1%	3.8%	5.9%
P/B incl. GW (x)	2.41	2.89	3.14	3.21	3.38	2.56	2.28	2.00
P/B excl. GW (x)	2.84	3.32	4.53	6.61	10.37	5.09	4.06	3.24
EV/Sales (x)	0.66	0.79	0.93	0.96	0.90	0.84	0.80	0.75
EV/EBITDA (x)	6.5	6.9	10.5	10.3	28.1	15.2	12.1	9.6
EV/EBIT (x)	8.2	8.6	14.7	14.4	ns	27.5	20.1	15.2
(*) historical average price								
PROFIT AND LOSS (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
Sales	363	391	430	502	509	520	534	548
EBITDA	37.0	45.1	38.3	46.5	16.4	28.8	35.5	43.0
Depreciations	-7.5	-9.1	-11.0	-13.1	-30.8	-12.9	-14.3	-15.9
Current EBIT	29.5	36.0	27.3	33.4	-14.5	15.9	21.3	27.0
Published EBIT	29.5	36.0	27.3	33.4	-14.5	15.9	21.3	27.0
Net financial income	-3.5	-2.3	8.0	-3.3	-1.4	-1.6	-1.7	-1.7
Corporate Tax	-3.8	-9.0	-6.1	-7.7	3.8	-3.6	-4.9	-6.3
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	-3.2	-3.4	-4.3	-5.6	-3.8	-3.0	-3.0	-3.0
Attributable net profit	19.0	21.4	24.8	16.8	-15.8	7.7	11.7	16.0
Adjusted attributable net profit	19.0	24.3	28.0	17.3	-17.3	7.7	11.7	16.0
BALANCE SHEET (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
Goodwill	11.6	11.3	31.8	52.2	55.2	55.2	55.2	55.2
Other intangible assets	11.4	12.9	20.6	30.8	28.5	29.5	30.0	30.0
Tangible fixed assets	37.9	52.9	66.5	80.4	104	108	112	115
WCR	88.6	89.7	113	123	129	133	136	140
Financial assets	19.9	16.2	15.0	30.1	11.2	14.8	18.4	22.2
Ordinary shareholders equity	67.9	79.1	93.3	91.4	73.6	100.0	113	129
Minority interests	8.6	10.3	19.2	33.4	33.4	46.5	53.1	61.3
Shareholders equity	76.5	89.4	113	125	107	146	166	190
Non-current provisions	37.2	43.8	52.5	58.7	68.1	72.7	74.1	75.5
Net debt	55.7	49.9	81.7	133	152	121	112	96.4
CASH FLOW STATEMENT (EURm)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
EBITDA	37.0	45.1	38.3	46.5	16.4	28.8	35.5	43.0
Change in WCR	0.0	-0.8	-24.4	-2.3	-14.3	0.5	-3.2	-3.2
Interests & taxes	-7.3	-11.3	1.8	-11.0	2.5	-5.2	-6.6	-8.0
Others	-0.3	-0.3	22.3	6.6	4.7	5.2	5.3	5.5
Operating Cash flow	29.4	32.7	38.1	39.8	9.2	29.3	31.1	37.2
CAPEX	0.0	-16.6	-52.8	-55.3	-36.9	-18.2	-18.7	-19.2
Free cash-flow	29.4	16.1	-14.7	-15.5	-27.8	11.1	12.4	18.1
Acquisitions / disposals	0.0	-4.1	0.4	-19.2	20.0	0.0	-2.6	-2.7
Dividends	-4.7	-5.9	-6.1	-6.1	0.0	0.0	-1.5	-2.9
Net capital increase	0.0	0.0	0.0	0.0	15.6	0.0	0.0	0.0
Others	8.1	-33.2	-57.0	-45.1	-42.9	-65.5	-52.5	-11.8
Change in net debt	31.1	-31.6	-73.0	-78.8	-61.8	-54.4	-44.3	0.7
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
Sales growth	14.0%	7.7%	10.0%	16.9%	1.4%	2.2%	2.7%	2.6%
Lfi sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	7.3%	22.0%	-24.2%	22.4%	ns	ns	33.8%	27.0%
Growth in EPS(%)	1.7%	28.0%	15.3%	-37.4%	ns	ns	50.4%	37.0%
Net margin	5.2%	6.2%	6.5%	3.5%	-3.4%	1.5%	2.2%	2.9%
EBITDA margin	10.2%	11.5%	8.9%	9.3%	3.2%	5.5%	6.7%	7.8%
Current EBIT margin	8.1%	9.2%	6.4%	6.7%	-2.8%	3.1%	4.0%	4.9%
CAPEX / Sales	0.0%	-4.3%	-12.3%	-11.0%	-7.3%	-3.5%	-3.5%	-3.5%
WCR / Sales	24.4%	23.0%	26.3%	24.4%	25.2%	25.5%	25.5%	25.5%
Tax Rate	14.6%	26.6%	17.4%	25.4%	24.2%	25.0%	25.0%	25.0%
Normative tax rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Asset Turnover	2.7	2.5	2.2	1.9	1.7	1.6	1.6	1.6
ROCE post-tax (normative tax rate)	15.2%	15.9%	9.6%	9.0%	-3.4%	3.5%	4.5%	5.6%
ROCE post-tax hors GW (normative tax rate)	16.5%	17.2%	10.8%	10.8%	-4.1%	4.2%	5.4%	6.7%
ROE	31.6%	33.1%	32.5%	18.8%	-21.0%	8.9%	11.0%	13.2%
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e	12/19e
Gearing	73%	56%	73%	ns	ns	83%	67%	51%
Net Debt / Market Cap	0.34	0.22	0.28	0.45	0.61	0.47	0.43	0.37
Net debt / EBITDA	1.50	1.11	2.14	2.85	ns	4.20	3.14	2.24
EBITDA / net financial charges	11.8	22.7	10.5	8.1	1.9	18.2	21.2	25.9

Source: Oddo, Fininfo