



11 September 2008

Institutional Equity Research

Company

Flash

R. Stahl

Rating

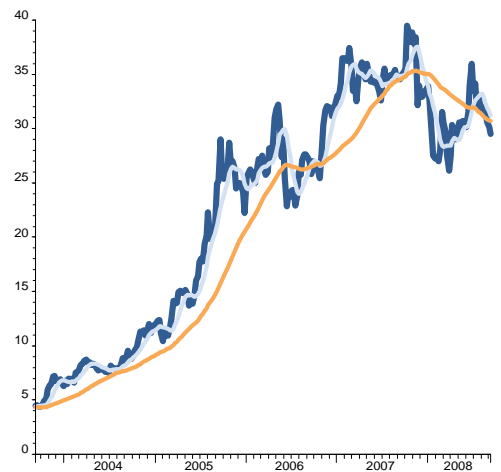
Buy (unchanged)

- Incoming orders curve flattening out due to basis and project effects ▶
- Double-digit sales and earnings increases in first half year 2008 ▶
- Slight downward adjustment of our estimates for 2009 due to economic situation ▶
- Lowering price target from € 43.00 to € 41.00 ▶



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream

For disclaimer and important disclosures please see Appendix-1



Buy

Target price: € 41.00

Price: € 29.00

09/11/08

09:02 h

Last rating/Target Pr.:

Buy /€ 43.00

Last analysis:

01/15/2008

S&P rating: n.a.

Explosion Protection

Number of shares:

5.9 m

Market capitalisation:

€ 171.8 m

Index: Prime Industrial

Index weight: 0.07 %

Beta: 0.80

Accounting:

IFRS

Calendar:

Q3 on 11/11/2008

Dividend 2008e:

1.20 €

Div. Yield 2008e:

4.14 %

ISIN: DE0007257727

Bloomberg: RSL1 GY

Reuters: RSLG.DE

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R. Stahl

09/11/2008

Topic: Company Update

Continuing positive business performance

During the last months, the share has deservedly performed better than the overall market. Given the weaker economic situation, the low effect of economic cycles on R. Stahl's business model will be put to the test, while we are optimistic regarding the future development of the company. A slight downward adjustment of our estimates for 2009 does not change this either. We are lowering our price target slightly from € 43.00 to € 41.00, but we are confirming our clear Buy rating.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new	old			
	€	€			
2007	2.40	2.40	0.9	5.1	13.9
2008e	2.92	2.89	0.7	4.2	9.9
2009e	3.17	3.24	0.6	4.0	9.1
2010e	3.40	-	0.6	3.9	8.5

Company ratios	Sales	EBITDA	EBIT	EBIT-Margin	Net result
	m €	m €	m €		m €
2007	211.6	35.7	26.9	12.3 %	15.7
2008e	235.2	36.8	28.0	11.7 %	17.3
2009e	246.6	38.7	30.1	12.1 %	18.8
2010e	253.9	40.3	31.8	12.4 %	20.2

- Basis and project-related deceleration of incoming order growth (+5 % to € 117 m) in the first half year 2008.
- 15 % sales increase to € 112 m.
- EBT +30 % (adjusted by extraordinary prior-year earnings) to € 13.0 m.
- EBT margin 11.6 % (based on sales) favoured by product mix.
- Assuming a shift in the second half year, this will, according to our unchanged estimate, take the margin back to 10.9 %. This is clearly above the guidance of 10 %.
- The EPS increase for 2008 from € 2.89 to € 2.92 is merely due to a lower tax rate (30 %, previously: 31 %).
- We anticipate a slightly weaker growth rate for 2009 due to the economic situation (sales +5 % to € 246.6 m instead of € 253.6 m, EBT +9 % to € 27.9 m instead of € 28.8 m).

Valuation

Discounted cash flow analysis

- We have chosen the entity approach for the DCF valuation of the company. This model calculates free cash flow based on an assumed 100% equity financing for the individual planning years. The capital structure of the company impacts the WACC via the target capital structure
- In comparison to the last valuation, we have adapted our assumptions to the changed estimates. The increased market risk premium led to a WACC increase from 7.3 % to 7.6 %.

DCF model - input parameters

Riskfree interest rate	4,1%
Market risk premium equity	5,5%
Beta factor	0,8
Cost of equity	8,5%
Cost of debt (after tax)	3,9%
Equity ratio (market value)	80,0%
WACC	7,6%
Terminal growth rate	1,0%

Source: LBBW

- The expected FCF development is illustrated from 2008 until 2017. In the first phase until 2010 it is based on detailed forecasts. For the second phase from 2011 to 2017 we assumed degressive key value drivers.

Free Cash Flow (€m)	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e
Sales	235	247	254	267	285	304	322	340	357	373
<i>growth (yoy)</i>	<i>11,1%</i>	<i>4,8%</i>	<i>3,0%</i>	<i>5,0%</i>	<i>7,0%</i>	<i>6,5%</i>	<i>6,0%</i>	<i>5,5%</i>	<i>5,0%</i>	<i>4,5%</i>
EBIT	28,0	30,1	31,8	32,0	32,8	33,4	33,8	34,0	33,9	33,5
<i>EBIT margin</i>	<i>11,9%</i>	<i>12,2%</i>	<i>12,5%</i>	<i>12,0%</i>	<i>11,5%</i>	<i>11,0%</i>	<i>10,5%</i>	<i>10,0%</i>	<i>9,5%</i>	<i>9,0%</i>
- taxes on EBIT	8,4	9,0	9,5	9,6	9,8	10,0	10,1	10,2	10,2	10,1
<i>Tax ratio</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>	<i>30,0%</i>
+ Depreciation	8,8	8,6	8,5	9,1	10,0	10,6	11,3	11,9	12,5	13,0
<i>of sales</i>	<i>3,7%</i>	<i>3,5%</i>	<i>3,3%</i>	<i>3,4%</i>	<i>3,5%</i>	<i>3,5%</i>	<i>3,5%</i>	<i>3,5%</i>	<i>3,5%</i>	<i>3,5%</i>
Accruals	45,7	46,5	47,2	48,8	51,3	54,1	56,7	59,1	61,4	63,4
<i>of sales</i>	<i>19,4%</i>	<i>18,8%</i>	<i>18,6%</i>	<i>18,3%</i>	<i>18,0%</i>	<i>17,8%</i>	<i>17,6%</i>	<i>17,4%</i>	<i>17,2%</i>	<i>17,0%</i>
+ Delta accruals	0,6	0,8	0,8	1,6	2,6	2,7	2,6	2,4	2,2	2,0
= Operating Cash Flow	29,0	30,4	31,5	33,0	35,5	36,8	37,5	38,1	38,4	38,5
- Capex	11,5	9,5	8,4	9,3	11,4	11,8	12,2	12,6	12,8	13,0
<i>of sales</i>	<i>4,9%</i>	<i>3,8%</i>	<i>3,3%</i>	<i>3,5%</i>	<i>4,0%</i>	<i>3,9%</i>	<i>3,8%</i>	<i>3,7%</i>	<i>3,6%</i>	<i>3,5%</i>
Net Working Capital	43,0	46,4	48,5	51,5	55,6	59,5	63,4	67,3	71,0	74,6
<i>of sales</i>	<i>18,3%</i>	<i>18,8%</i>	<i>19,1%</i>	<i>19,3%</i>	<i>19,5%</i>	<i>19,6%</i>	<i>19,7%</i>	<i>19,8%</i>	<i>19,9%</i>	<i>20,0%</i>
- Delta Net Working Capital	3,3	3,3	2,1	3,0	4,2	3,9	3,9	3,8	3,7	3,6
= Free Cash Flow	14,1	17,6	21,0	20,7	19,9	21,0	21,4	21,7	21,9	21,9
Present Value	12,8	14,9	16,5	15,1	13,5	13,2	12,6	11,8	11,1	11,1

Source: LBBW

- The DCF model yields a fair value per share of € 46.18, resulting in an upside of 59 %. Given the current market situation, however, we don't expect that the fair value can be achieved in the short term and thus include a risk discount of about 10 % in our price target.

Fair Value per share (€m.)

Present Value Free Cash Flow planned years	121,6
+ Present Value Terminal Value	181,6
= Enterprise Value	303,3
<i>TV of Enterprise Value</i>	<i>59,9%</i>
- Net Financial Debt	28,6
- Minorities	1,1
+ Peripheral Assets	0,0
= Market cap total	273,6
/ number of common stocks	5,9
= Fair Value per share (€)	46,18

Source: LBBW

Recommendation

- During the last months, the share has deservedly performed better than the overall market. Given the weaker economic situation, the low effect of economic cycles on R.Stahl's business model will be put to the test, while we are optimistic regarding the future development of the company. A slight downward adjustment of our estimates for 2009 does not change this either. We are lowering our price target slightly from € 43.00 to € 41.00, but we are confirming our clear Buy rating.

Development current business year and outlook

Company data	6M 2008	6M 2007	change
Incoming orders (€ m)	116,7	111,1	5,0%
Net sales (€ m)	111,7	97,2	14,9%
EBT* (€ m)	13,0	10,0	29,0%

* exd. € 1.5 m extraordinary profit in 2007

Source: R. Stahl

- Due to basis effects (prior-year +28.4 %) growth rate of incoming orders experienced a clear decline during the first half year. The prior year was heavily characterised by major projects, which did not come in so far this year. However, all major sales segments show a stable propensity to invest. R. Stahl mentions delays at larger projects though, as there are some capacity bottlenecks at international planning agencies.
- Much like in 2007, sales growth was heavily dominated by the overseas markets, which confirms the success of the latest growth initiative. There were also basis effects to be noted here, since in Asia for instance, the higher order volume only lead to considerable sales growth in the second half of 2007. Thus sales figures rose by 90 % to € 22.9 m, corresponding to a sales share of a good 20 % in the first half of FY 2008. In the America region 22 % growth were achieved, corresponding to 8 % of sales. Thus markets outside of Europe are increasingly reaching a significant size, so that the company is no longer only stabilised by its industry mix, but also by regional diversity.

Overseas growth spurt continues

EBT adjusted +30 %**2008 estimates unchanged above guidance****Flexible cost structure****Conservative 2009 estimates due to economic situation****Lifting its medium-term target confirms R. Stahl's optimism**

- The dominant indicator EBT improved by 13 % to € 13.0 m. Adjusted by € 1.5 m one-off income related to the sale of the IT division this reflects to a growth rate of 30 %. The EBT margin of 11.6 % (prior year adjusted: 10.9 %, 30.06.: 10.3 %) is both above the unchanged company guidance of 10 % and above our estimate of 10.9 % (based on sales). R. Stahl anticipates a higher share of OEM project billing in the course of the year, which typically has a negative effect on margin performance.
- Due to traditionally conservative expectations from the management, we don't see any reason for adjusting our estimates downwards and also consider ourselves as rather on the conservative side. For reaching our unchanged sales estimate of € 235.2 m (guidance € 220 m to € 230 m), 8 % growth in the second half year will be sufficient. Our EBT forecast also remains unchanged at € 25.6 m (guidance € 22 m to € 23 m), corresponding to an adjusted increase of 11 %.
- The company reports a continuously high capacity utilisation, which led to an expansion of shifts and a further lease of facilities. The workforce was expanded by a further 50 employees to a headcount of 1.324. Still management is ensuring flexible cost structures and targets a ratio of 10 % temporary employees. Given the volatile project business, which recently climbed to about 35 %, this enables the company to also react flexibly in case of a downswing.
- Large-scale plant-engineering business, the most important customer group reports continuously full order books and fully utilised engineering capacities. On the other hand, the latest ifo Business Climate Index confirmed that expectations in the electronics segment have significantly clouded. Order income in the German electronics industry in the sub segment automation gained 10 % in the first half year 2008 (+4 % total segment) and thus performed much better than other sectors which are more dependent on consumer behaviour. This is in line with our view that the boom in raw materials (ex the current fall in prices) led to many new projects – after years of reluctance - which can only gradually be processed due to capacity limitations. However, the business is rather late in the cycle, which may mean that a weaker economic situation could still reflect on the business in the medium term.
- Therefore we have slightly reduced our estimates for 2009. We now anticipate a sales plus of 5 % (in line with long-term market growth) to € 246.6 m (previously +8 % to € 253.6 m). In terms of EBT we expect a 9 % increase to € 27.9 m (previously + 12.5 % to € 28.8 m), corresponding to an 11.3 % margin.
- In our initial 2010 estimates we are taking a conservative stance for the time being. We assume 3 % sales growth (to € 253.9 m), corresponding to the lower range of long-term market development. With regard to flexible cost structures as well as a decline in write-downs and interest expenses, we consider a slightly over-proportionate earnings improvement as possible (+7 % to € 29.8 m).
- R. Stahl has qualitatively raised its medium-term targets until 2011. The company now anticipates sales to the amount of € 300 m (previously € 250 m to € 300 m) and EBT of 10 % (previously 8 % to 10 %). This would correspond to a sales growth of about 9 % p.a. R. Stahl also anticipates that there will be an opportunity to grow by means of acquisitions, even if there are no specific projects in the pipeline to date.

Income statement €m	2006	2007	2008e	2009e	2010e
Net sales	167,1	211,6	235,2	246,6	253,9
Change in inventories + other own work capitalised	4,9	6,7	3,3	2,6	2,7
Total operating performance	172,0	218,3	238,5	249,2	256,6
Cost of materials	54,3	74,3	81,0	84,4	86,7
Personnel expenses	66,3	72,3	80,1	84,1	86,6
Other operating expenses	32,6	42,5	46,6	48,0	49,0
Other operating income	6,6	6,5	6,0	6,0	6,0
EBITDA	25,4	34,2	36,8	38,7	40,3
<i>Margin</i>	<i>14,8</i>	<i>15,7</i>	<i>15,4</i>	<i>15,5</i>	<i>15,7</i>
Depreciation and amortisation	6,9	8,8	8,8	8,6	8,5
EBIT	18,5	25,4	28,0	30,1	31,8
<i>Margin</i>	<i>11,1</i>	<i>12,0</i>	<i>11,9</i>	<i>12,2</i>	<i>12,5</i>
Financial result	- 2,0	- 2,3	- 2,4	- 2,2	- 2,0
EBT	16,5	23,1	25,6	27,9	29,8
<i>Margin</i>	<i>9,6</i>	<i>10,6</i>	<i>10,7</i>	<i>11,2</i>	<i>11,6</i>
Taxes on income	5,9	8,4	7,7	8,4	8,9
EAT	10,6	14,6	17,9	19,5	20,9
<i>Margin</i>	<i>6,2</i>	<i>6,7</i>	<i>7,5</i>	<i>7,8</i>	<i>8,1</i>
Earnings discontinuing operations	2,2	1,6	0,0	0,0	0,0
Minorities	0,3	0,5	0,6	0,7	0,8
Net profit	12,6	15,7	17,3	18,8	20,2
Earnings per share in €* (Continuing Operations)	1,75	2,40	2,92	3,17	3,40
Earnings per share in € (R. Stahl Group)	2,13	2,65	2,92	3,17	3,40

Balance sheet €m	2006	2007	2008e	2009e	2010e
Assets	167,6	180,2	190,4	204,5	217,8
Goodwill	3,4	4,9	4,9	4,9	4,9
Other intangible assets	14,7	16,5	16,9	16,8	16,2
Tangible assets	26,4	29,1	29,8	29,5	28,6
Financial assets	0,9	0,2	0,2	0,2	0,2
Other fixed assets	16,6	13,4	14,1	14,7	15,5
Fixed assets	62,0	64,0	65,8	66,0	65,4
Inventories	29,3	37,7	40,5	42,2	43,2
Trade receivables	37,5	41,5	44,7	48,1	50,0
Other receivables and assets	6,0	7,3	8,7	9,4	10,2
Cash and cash equivalents	32,9	29,7	30,7	38,9	49,1
Current assets	105,7	116,2	124,6	138,5	152,5
Discontinued operations	0,0	0,0	0,0	0,0	0,0
Liabilities	167,6	180,2	190,4	204,5	217,8
Equity	64,8	74,0	84,8	96,5	108,9
Minority interests	1,3	1,1	1,7	2,4	3,2
Pension provisions	44,1	45,1	45,7	46,5	47,2
Other provisions	10,3	13,6	14,1	14,8	15,2
Financial liabilities	15,4	13,2	7,4	5,8	3,7
Trade payables	11,7	11,9	13,2	13,8	14,2
Other liabilities	20,1	21,3	23,5	24,7	25,4
Discontinued operations	0,0	0,0	0,0	0,0	0,0

Cash flow statement	2006	2007	2008e	2009e	2010e
€m					
Consolidated net profit	10,6	16,2	17,9	19,5	20,9
Depreciation and amortization	7,0	8,8	8,8	8,6	8,5
Change in long term provisions	2,2	0,8	0,6	0,8	0,7
Change in working capital	- 15,8	- 9,3	- 3,4	- 3,3	- 2,1
Other changes	- 0,8	1,2	0,0	0,0	0,0
Cash flow from operating activities	3,3	17,7	23,9	25,6	28,0
Capital expenditure	- 10,4	- 14,3	- 11,5	- 9,5	- 8,4
Disposals/divestments	6,0	3,8	0,9	0,7	0,5
Other changes	- 8,6	0,0	0,0	0,0	0,0
Cash flow from investing activities	- 13,0	- 10,5	- 10,6	- 8,7	- 7,9
Proceeds from capital increase	0,0	0,0	0,0	0,0	0,0
Dividend payment	- 4,7	- 5,3	- 6,5	- 7,1	- 7,7
Change in financial liabilities	- 0,9	- 2,2	- 5,8	- 1,6	- 2,1
Other changes	- 0,4	- 2,3	0,0	0,0	0,0
Cash flow from financing activities	- 6,0	- 9,8	- 12,3	- 8,7	- 9,8
Other changes	- 0,3	- 0,5	0,0	0,0	0,0
Change in cash and cash equivalents	- 16,1	- 3,1	1,0	8,1	10,3
Cash and cash equivalents at start of year	49,0	32,9	29,7	30,7	38,9
Cash and cash equivalents at end of year	32,9	29,7	30,7	38,9	49,1

Appendix-1

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Percentage of companies within this rating category		
Buy	Hold	Sell
57,5%	32,8%	9,7%

Rating History

Date	Rating
11/21/2003	Buy