



09 February 2009

Institutional Equity Research

Company

Flash

# R. Stahl



**Rating**

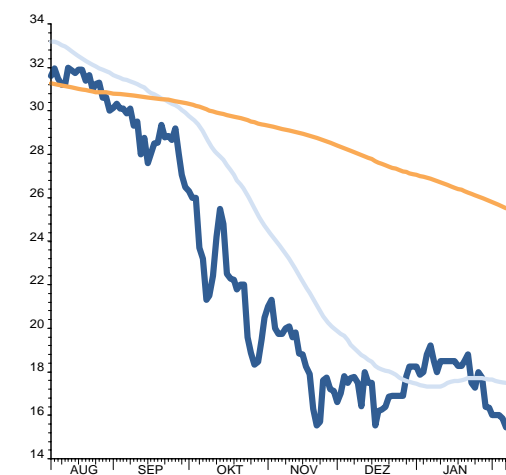
**Buy (unchanged)**

Preliminary key figures for 2008 below expectations ▶

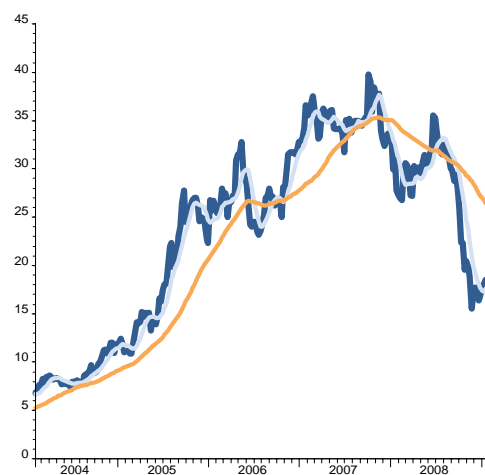
Maintenance and service business shows stable performance ▶

Postponement of numerous major projects ▶

Price target lowered from € 37.00 to € 28.00 ▶



— 38D Moving Average  
— 200D Moving Average



— 38D Moving Average  
— 200D Moving Average

Source: Thomson Datastream

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**For disclaimer and important disclosures please see Appendix-1**



## Buy

Target price: € 28.00

Price: € 15.70

02/09/09

14:36 h

Last rating/Target Pr.:

Buy /€ 37.00

Last analysis:

09/12/2008

S&P rating: n.a.

Explosion Protection

Number of shares:

5.924 m

Market capitalisation:

€ 93.0 m

Index: Prime Industrial

Index weight: 0.06 %

Beta: 0.90

Accounting:

IFRS

Calendar:

APC on 04/30/09

Dividend 2008e:

1.00 €

Div. Yield 2009e:

6.4 %

ISIN: DE0007257727

Bloomberg: RSL1 GY

Reuters: RSLG.DE

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## R. Stahl

02/09/2009

Topic: Key figures for fiscal year 2008

### Considerable signs of slow-down visible in earnings

The postponement of a number of major projects has taken its toll on the order book already starting in Q3 and now in sales and profits as well. The conservative accounting policy of R. Stahl should have played a role also. However, as early as the second half of the year, we are anticipating the business development to stabilise. Further, we are expecting a declining, but nevertheless high earnings level for 2009. The share price already fully reflects this. With regard to the quality of the balance sheet and the attractive business model, the share is undervalued. We therefore adhere to our Buy rating, where the investment horizon should rather be longer than 6 months, though. Our lowered profit estimates result in a price target of € 28.00.

| Share ratio | Earnings per share |      | EV/Sales | EV/EBITDA | PER  |
|-------------|--------------------|------|----------|-----------|------|
|             | new                | old  |          |           |      |
|             | €                  | €    |          |           |      |
| 2007        | 2.40               | 2.40 | 0.9      | 5.1       | 13.9 |
| 2008e       | 2.16               | 2.92 | 0.4      | 3.0       | 8.4  |
| 2009e       | 1.76               | 3.17 | 0.4      | 2.9       | 8.9  |
| 2010e       | 2.05               | 3.40 | 0.4      | 2.7       | 7.7  |

| 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          | 222.3 | 30.5   | 21.7 | 9.6 %       | 12.8       |
| 2009e          | 212.5 | 26.6   | 18.0 | 8.4 %       | 10.4       |
| 2010e          | 210.2 | 28.9   | 20.6 | 9.6 %       | 12.2       |

- This year R. Stahl was surprisingly early to publish first key data for the past fiscal year. According to these figures, sales of roughly € 222 m (+5 % yoy) at the lower end of the guidance (€ 220 m - € 230 m) were achieved. Apparently the EBT margin came out at a level of 8 % to 9 %. Adjusted for extraordinary write-offs on receivables and stocks with a volume of € 2 m - € 3 m, the guidance of 10 % would have been reached. Otherwise, the conservative accounting policy should have burdened the earnings level as well.
- Thus, Q4 - just as Q3 already - fell short of its respective previous year's quarter at € 54 m (-7 % yoy). We see this to be an adjustment of sales to the declining order inflow, but on a high level. Until Q2/08 eight quarters showed double-digit growth, in 2007 sales increased by a total of 27 %. At the same time, incoming orders started to decline noticeably as from Q3/08, because numerous projects were postponed in the wake of the financial crisis.
- As the company is expected to balance the overall project's accounts out of the order backlog in the first half of the year, incoming orders and sales should converge again as from Q3 and stabilise the earnings situation. The important business with maintenance and service (50 % sales share) continues to show a stable performance.

## Valuation

### Discounted cash flow valuation

- For the valuation of the group by means of discounted cash flows, we have chosen the entity approach. Here the free cash flow for the individual planning years is calculated under the fictive assumption that the company is fully equity financed. Via the target capital structure, the company's capital structure is considered in the weighted average costs (WACC).
- Compared to our last analysis, the assumptions were adjusted to the changed estimates. The risen market risk premium and a higher beta factor result in an increase in the WACC from 7.6 % to 8.4 %.

#### DCF model - input parameters

|                             |       |
|-----------------------------|-------|
| Riskfree interest rate      | 3,3%  |
| Market risk premium equity  | 6,6%  |
| Beta factor                 | 0,9   |
| Cost of equity              | 9,2%  |
| Cost of debt (after tax)    | 5,1%  |
| Equity ratio (market value) | 80,0% |
| WACC                        | 8,4%  |
| Terminal growth rate        | 1,0%  |

Source: LBBW

- The expected development of the free operating cash flows is shown for the years 2008 through 2017. The first phase until 2010 is based on detailed forecasts. The second phase from 2011 until 2017 is a forward projection of the most important value drivers with a declining curve.

| Free Cash Flow (€m)          | 2008e       | 2009e       | 2010e       | 2011e       | 2012e       | 2013e       | 2014e       | 2015e       | 2016e       | 2017e       |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sales                        | 222         | 213         | 210         | 221         | 232         | 243         | 255         | 268         | 282         | 296         |
| <i>growth (yoy)</i>          | 5,0%        | 4,4%        | -1,1%       | 5,0%        | 5,0%        | 5,0%        | 5,0%        | 5,0%        | 5,0%        | 5,0%        |
| <b>EBIT</b>                  | <b>21,7</b> | <b>18,0</b> | <b>20,6</b> | <b>23,2</b> | <b>25,5</b> | <b>26,8</b> | <b>26,8</b> | <b>26,8</b> | <b>26,8</b> | <b>26,6</b> |
| <i>EBIT margin</i>           | 9,8%        | 8,5%        | 9,8%        | 10,5%       | 11,0%       | 11,0%       | 10,5%       | 10,0%       | 9,5%        | 9,0%        |
| - taxes on EBIT              | 6,5         | 5,4         | 6,2         | 7,0         | 7,6         | 8,0         | 8,0         | 8,0         | 8,0         | 8,0         |
| <i>Tax ratio</i>             | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       | 30,0%       |
| + Depreciation               | 8,8         | 8,6         | 8,3         | 8,4         | 8,6         | 8,8         | 8,9         | 9,4         | 9,9         | 10,4        |
| <i>of sales</i>              | 4,0%        | 4,0%        | 3,9%        | 3,8%        | 3,7%        | 3,6%        | 3,5%        | 3,5%        | 3,5%        | 3,5%        |
| Accruals                     | 45,7        | 46,5        | 47,2        | 47,7        | 48,2        | 48,7        | 49,8        | 51,0        | 52,1        | 53,2        |
| <i>of sales</i>              | 20,6%       | 21,9%       | 22,4%       | 21,6%       | 20,8%       | 20,0%       | 19,5%       | 19,0%       | 18,5%       | 18,0%       |
| + Delta accruals             | 0,6         | 0,9         | 0,6         | 0,5         | 0,5         | 0,5         | 1,2         | 1,1         | 1,1         | 1,1         |
| <b>= Operating Cash Flow</b> | <b>24,6</b> | <b>22,1</b> | <b>23,4</b> | <b>25,1</b> | <b>26,9</b> | <b>28,0</b> | <b>28,9</b> | <b>29,3</b> | <b>29,7</b> | <b>30,1</b> |
| - Capex                      | 11,5        | 9,5         | 8,4         | 8,8         | 9,3         | 9,5         | 9,7         | 9,9         | 10,1        | 10,4        |
| <i>of sales</i>              | 5,2%        | 4,5%        | 4,0%        | 4,0%        | 4,0%        | 3,9%        | 3,8%        | 3,7%        | 3,6%        | 3,5%        |
| Net Working Capital          | 40,0        | 38,9        | 38,5        | 41,1        | 43,8        | 46,7        | 49,6        | 52,6        | 55,8        | 59,2        |
| <i>of sales</i>              | 18,0%       | 18,3%       | 18,3%       | 18,6%       | 18,9%       | 19,2%       | 19,4%       | 19,6%       | 19,8%       | 20,0%       |
| - Delta Net Working Capital  | 0,3         | -1,1        | -0,4        | 2,6         | 2,7         | 2,9         | 2,8         | 3,0         | 3,2         | 3,4         |
| <b>= Free Cash Flow</b>      | <b>12,8</b> | <b>13,7</b> | <b>15,4</b> | <b>13,7</b> | <b>14,9</b> | <b>15,6</b> | <b>16,3</b> | <b>16,4</b> | <b>16,4</b> | <b>16,4</b> |
| <b>Present Value</b>         | <b>11,9</b> | <b>11,8</b> | <b>12,2</b> | <b>10,0</b> | <b>10,0</b> | <b>9,7</b>  | <b>9,3</b>  | <b>8,6</b>  | <b>8,0</b>  | <b>8,0</b>  |

Source: LBBW

- On the basis of our DCF model we derive a fair value of € 31.22 per share, resulting in a calculatory potential of the share price to double. However, against the backdrop of the current market situation, we do not think that the fair value can be reached in the short term and calculate our price target with a 10 % risk discount.

#### Fair Value per share (€m.)

|  |              |
|--|--------------|
| Present Value Free Cash Flow planned years | 91,4         |
| + Present Value Terminal Value             | 123,3        |
| <b>= Enterprise Value</b>                  | <b>214,7</b> |
| <i>TV of Enterprise Value</i>              | <i>57,4%</i> |
| - Net Financial Debt                       | 28,6         |
| - Minorities                               | 1,1          |
| + Peripheral Assets                        | 0,0          |
| <b>= Market cap total</b>                  | <b>185,0</b> |
| / number of common stocks                  | 5,9          |
| <b>= Fair Value per share (€)</b>          | <b>31,22</b> |

Source: LBBW

## Outlook

- The company's generally low dependence on cyclical fluctuations continues to apply. The customer portfolio is widely diversified, with the oil and gas industry (31 %), chemicals (30 %) and pharmaceuticals (18 %) as the largest sales sectors. In general, half the sales are generated by maintenance and service of the installed base. Moreover, the growth strategy that was already presented several times (systems business, expansion in the US and Asia, new sectors, product innovations) should also help to cushion the downturn in difficult times.
- At R. Stahl the sudden decline of the global economy is reflected in a temporarily more cyclical business development than normally would have been the case. Deteriorated financing conditions, profit slumps on the part of customers and the collapse of crude oil prices are resulting in the postponement (or cancellation) of a number of projects from the chemical as well as the oil and gas industry.
- The atypical growth boom of 2007 (incoming orders +28 %, sales +27 %) was, however, mainly attributable to project business. Accordingly, the rates of decline (yoy) in the following quarters should be stronger (due to projects) than in a "normal" cycle. Maintenance business, in contrast, is showing stable performance and may even benefit from project postponements, if more maintenance investments have to be made for older plants. Therefore incoming orders are bound to stabilise (qoq) fast on a lower level, followed by sales with a time lag.
- In the past fiscal year incoming orders must have been declining already (LBBWe: -3 % to € 213 m). For 2009, we anticipate a further decline of about 5 % to 10 %. The order backlog (€ 38.5 m as at 30 September 08) should be able to slightly cushion the decline and in 2009 sales should thus manage to reach a level of € 10-15 m above the order volume.

- On the cost side R. Stahl is more flexible nowadays than during the last recession. This for example involves an up to 15 % share of temporary workers as well as the possibility to reduce the number of weekly working hours. On the whole, the company assumes that about 70 % of costs are flexible. Furthermore, a series of measures are being initiated that had been neglected in times of strong growth. Thus, the company is planning to expand international purchasing, to reduce the processing times in the production network or start a further round of process improvements, to name a few.
- Against this backdrop, we are reducing our sales estimate for 2009 from € 246.6 m to € 212.5 m. Based on an EBT of € 19.2 m in 2008 (-22 % yoy) we are anticipating a 19 % decrease to € 15.6 m. This would correspond to an EBT margin of 7.3 %. Adjusted for one-off expenditures in 2008, this could mean a decline of about 30 %. In the course of the year we are anticipating margin development below average when larger project orders are settled in the first half of the year. However, as from Q3 the latest the margin trend should start showing an increasing trend again.
- For 2010 we anticipate incoming orders to slightly increase. Nevertheless, the recovery should only suffice to stop the declining sales performance, but not be enough for generating growth. However, visibility is still relatively low, but we are confident that a more favourable product mix (due to reduced project settlements) will result in a rising margin trend. Therefore we are anticipating an EBT margin of 8.8 % (previously 11.7 %) for sales of € 210.2 m (previously € 253.9 m). In absolute figures, this equals an increase of 18 % to € 18.4 m.

| Change in estimates     | 2008e | 2008e | 2009e | 2009e | 2010e | 2010e |
|-------------------------|-------|-------|-------|-------|-------|-------|
|                         | old   | new   | old   | new   | old   | new   |
| <b>Sales (€ m)</b>      | 235,2 | 222,3 | 246,6 | 212,5 | 253,9 | 210,2 |
| <i>change</i>           |       |       | 4,8%  | -4,4% | 3,0%  | -1,1% |
| <b>EBIT (€ m)</b>       | 28,0  | 21,7  | 30,1  | 18,0  | 31,8  | 20,6  |
| <i>margin</i>           | 11,9% | 9,8%  | 12,2% | 8,5%  | 12,5% | 9,8%  |
| <b>EBT (€ m)</b>        | 25,6  | 19,2  | 27,9  | 15,6  | 29,8  | 18,4  |
| <i>margin</i>           | 10,9% | 8,6%  | 11,3% | 7,3%  | 11,7% | 8,8%  |
| <b>Net income (€ m)</b> | 17,9  | 13,4  | 19,5  | 10,9  | 20,9  | 12,9  |
| <i>change</i>           | 0,0   | 0,0   | 0,1   | -0,2  | 0,1   | 0,2   |
| <b>EPS (€)</b>          | 2,92  | 2,16  | 3,17  | 1,76  | 3,40  | 2,05  |

Source: LBBW

- The medium term targets that had aimed at sales of € 300 m and an EBT margin of 10 % for 2011 are bound to be postponed. On the other hand, the current market situation offers the opportunity of making one acquisition or two. With a strong balance sheet and liquid funds amounting to € 32 m the conditions would be favourable.

| <b>Income statement</b><br>€m                           | <b>2006</b>  | <b>2007</b>  | <b>2008e</b> | <b>2009e</b> | <b>2010e</b> |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>  | <b>167,1</b> | <b>211,6</b> | <b>222,3</b> | <b>212,5</b> | <b>210,2</b> |
| Change in inventories + other own work capitalised      | 4,9          | 6,7          | 3,5          | 1,5          | 4,0          |
| <b>Total operating performance</b>                      | <b>172,0</b> | <b>218,3</b> | <b>225,8</b> | <b>214,0</b> | <b>214,2</b> |
| Cost of materials                                       | 54,3         | 74,3         | 76,1         | 71,7         | 71,3         |
| Personnel expenses                                      | 66,3         | 72,3         | 79,1         | 77,9         | 77,1         |
| Other operating expenses                                | 32,6         | 42,5         | 45,6         | 43,8         | 42,9         |
| Other operating income                                  | 6,6          | 6,5          | 5,5          | 6,0          | 6,0          |
| <b>EBITDA</b>   | <b>25,4</b>  | <b>34,2</b>  | <b>30,5</b>  | <b>26,6</b>  | <b>28,9</b>  |
| <i>Margin</i>   | <i>14,8</i>  | <i>15,7</i>  | <i>13,5</i>  | <i>12,4</i>  | <i>13,5</i>  |
| Depreciation and amortisation                           | 6,9          | 8,8          | 8,8          | 8,6          | 8,3          |
| <b>EBIT</b>   | <b>18,5</b>  | <b>25,4</b>  | <b>21,7</b>  | <b>18,0</b>  | <b>20,6</b>  |
| <i>Margin</i>   | <i>11,1</i>  | <i>12,0</i>  | <i>9,8</i>   | <i>8,5</i>   | <i>9,8</i>   |
| Financial result  | -2,0         | -2,3         | -2,5         | -2,4         | -2,2         |
| <b>EBT</b>  | <b>16,5</b>  | <b>23,1</b>  | <b>19,2</b>  | <b>15,6</b>  | <b>18,4</b>  |
| <i>Margin</i>   | <i>9,6</i>   | <i>10,6</i>  | <i>8,5</i>   | <i>7,3</i>   | <i>8,6</i>   |
| Taxes on income   | 5,9          | 8,4          | 5,8          | 4,7          | 5,5          |
| <b>EAT</b>  | <b>10,6</b>  | <b>14,6</b>  | <b>13,4</b>  | <b>10,9</b>  | <b>12,9</b>  |
| <i>Margin</i>   | <i>6,2</i>   | <i>6,7</i>   | <i>5,9</i>   | <i>5,1</i>   | <i>6,0</i>   |
| Earnings discontinuing operations                       | 2,2          | 1,6          | 0,0          | 0,0          | 0,0          |
| Minorities  | 0,3          | 0,5          | 0,6          | 0,5          | 0,8          |
| <b>Net profit</b>                                       | <b>12,6</b>  | <b>15,7</b>  | <b>12,8</b>  | <b>10,4</b>  | <b>12,2</b>  |
| <b>Earnings per share in €* (Continuing Operations)</b> | <b>1,75</b>  | <b>2,40</b>  | <b>2,16</b>  | <b>1,76</b>  | <b>2,05</b>  |
| <b>Earnings per share in € (R. Stahl Group)</b>         | <b>2,13</b>  | <b>2,65</b>  | <b>2,16</b>  | <b>1,76</b>  | <b>2,05</b>  |

| <b>Balance sheet</b><br>€m     | <b>2006</b>  | <b>2007</b>  | <b>2008e</b> | <b>2009e</b> | <b>2010e</b> |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Assets</b>                  | <b>167,6</b> | <b>180,2</b> | <b>186,1</b> | <b>187,5</b> | <b>193,6</b> |
| Goodwill                       | 3,4          | 4,9          | 4,9          | 4,9          | 4,9          |
| Other intangible assets        | 14,7         | 16,5         | 16,9         | 16,8         | 16,4         |
| Tangible assets                | 26,4         | 29,1         | 29,8         | 29,6         | 28,9         |
| 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         |
| <b>Fixed assets</b>            | <b>62,0</b>  | <b>64,0</b>  | <b>65,8</b>  | <b>66,1</b>  | <b>65,8</b>  |
| Inventories                    | 29,3         | 37,7         | 38,2         | 36,3         | 35,7         |
| Trade receivables              | 37,5         | 41,5         | 42,2         | 41,4         | 41,4         |
| Other receivables and assets   | 6,0          | 7,3          | 7,6          | 7,0          | 6,7          |
| Cash and cash equivalents      | 32,9         | 29,7         | 32,2         | 36,6         | 43,9         |
| <b>Current assets</b>          | <b>105,7</b> | <b>116,2</b> | <b>120,3</b> | <b>121,4</b> | <b>127,8</b> |
| <b>Discontinued operations</b> | <b>0,0</b>   | <b>0,0</b>   | <b>0,0</b>   | <b>0,0</b>   | <b>0,0</b>   |
| <b>Liabilities</b>             | <b>167,6</b> | <b>180,2</b> | <b>186,1</b> | <b>187,5</b> | <b>193,6</b> |
| Equity                         | 64,8         | 74,0         | 80,3         | 84,8         | 91,6         |
| Minority interests             | 1,3          | 1,1          | 1,7          | 2,2          | 3,0          |
| Pension provisions             | 44,1         | 45,1         | 45,7         | 46,5         | 47,2         |
| Other provisions               | 10,3         | 13,6         | 13,3         | 12,8         | 12,6         |
| Financial liabilities          | 15,4         | 13,2         | 10,4         | 8,1          | 6,4          |
| Trade payables                 | 11,7         | 11,9         | 12,4         | 11,9         | 11,8         |
| Other liabilities              | 20,1         | 21,3         | 22,2         | 21,3         | 21,0         |
| Discontinued operations        | 0,0          | 0,0          | 0,0          | 0,0          | 0,0          |

| <b>Cash flow statement</b>                      | <b>2006</b>   | <b>2007</b>   | <b>2008e</b>  | <b>2009e</b> | <b>2010e</b> |
|---|---------------|---------------|---------------|--------------|--------------|
| €m  |               |               |               |              |              |
| <b>Consolidated net profit</b>                  | <b>10,6</b>   | <b>16,2</b>   | <b>13,4</b>   | <b>10,9</b>  | <b>12,9</b>  |
| Depreciation and amortization                   | 7,0           | 8,8           | 8,8           | 8,6          | 8,3          |
| Change in long term provisions                  | 2,2           | 0,8           | 0,6           | 0,8          | 0,7          |
| Change in working capital                       | - 15,8        | - 9,3         | - 0,4         | 1,1          | 0,4          |
| Other changes                                   | - 0,8         | 1,2           | 0,0           | 0,0          | 0,0          |
| <b>Cash flow from operating activities</b>      | <b>3,3</b>    | <b>17,7</b>   | <b>22,4</b>   | <b>21,4</b>  | <b>22,3</b>  |
| Capital expenditure                             | - 10,4        | - 14,3        | - 11,5        | - 9,5        | - 8,4        |
| Disposals/divestments                           | 6,0           | 3,8           | 0,9           | 0,6          | 0,4          |
| Other changes                                   | - 8,6         | 0,0           | 0,0           | 0,0          | 0,0          |
| <b>Cash flow from investing activities</b>      | <b>- 13,0</b> | <b>- 10,5</b> | <b>- 10,6</b> | <b>- 8,9</b> | <b>- 7,9</b> |
| Proceeds from capital increase                  | 0,0           | 0,0           | 0,0           | 0,0          | 0,0          |
| Dividend payment                                | - 4,7         | - 5,3         | - 6,5         | - 5,9        | - 5,3        |
| Change in financial liabilities                 | - 0,9         | - 2,2         | - 2,8         | - 2,3        | - 1,7        |
| Other changes                                   | - 0,4         | - 2,3         | 0,0           | 0,0          | 0,0          |
| <b>Cash flow from financing activities</b>      | <b>- 6,0</b>  | <b>- 9,8</b>  | <b>- 9,3</b>  | <b>- 8,2</b> | <b>- 7,0</b> |
| Other changes                                   | - 0,3         | - 0,5         | 0,0           | 0,0          | 0,0          |
| <b>Change in cash and cash equivalents</b>      | <b>- 16,1</b> | <b>- 3,1</b>  | <b>2,5</b>    | <b>4,3</b>   | <b>7,3</b>   |
| Cash and cash equivalents at start of year      | 49,0          | 32,9          | 29,7          | 32,2         | 36,6         |
| <b>Cash and cash equivalents at end of year</b> | <b>32,9</b>   | <b>29,7</b>   | <b>32,2</b>   | <b>36,6</b>  | <b>43,9</b>  |

## Appendix-1

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|---|-------|-------|
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| Date       | Rating |
|------------|--------|
| 11/21/2003 | Buy    |