Capital Goods

A Research Publication by DZ BANK AG

Schaltbau Holding[5)7)8)9)10)11)12)]

Reuters: SLTG.DE **Bloomberg:** SLT GY

Year *	Sales		Adj. IFRS-Earnings per sh.		PER	Free cash flow per share		Free cash flow yield	Dividend per share
	EUR m		EUR			EUR		%	EUR
2016	508.9	(508.9)	-1.84	(-1.84)	–	-2.40	(-2.40)	-7.8	0.00
2017e	517.7	(517.7)	1.33	(1.33)	26.5	2.01	(2.01)	5.7	0.30
2018e	534.8	(534.8)	2.10	(2.10)	16.7	1.25	(1.25)	3.6	0.50
2019e	545.5	(–)	2.81	(–)	12.5	1.70	(–)	4.8	0.80

* Fiscal year end December – In brackets: Figures from the last publication

Activist investor entering the stage, SLT proposes capital increase – New FV 39 (old 34)

- Active Ownership Capital proposed to subscribe to a max. 10% capital increase at EUR 36 per share excl. subscription rights to improve SLT's short-term financial flexibility (opening price EUR 35.2). The activist investor holds together with Satora Beteiligungs GmbH (ex CEO Schaltbau Dr. Cammann) 11.21% of the shares („acting-in-concert"). AOC argues that the proposal provides more financial flexibility than the capital hike provided by SLT (at EUR ~34) and therefore would be in the best interest for shareholders and the company. Additionally, AOC submitted supplementary motions to the upcoming AGM (June 8th 2017) regarding the replacement of 3 supervisory board members (amongst them probably chairman H.J. Zimmermann, who owns 7.8% in SLT).
- Shortly thereafter, SLT published the decision for a 7.44% capital increase (ex subscription rights) at 34.1149 per share, to be placed with selected institutional investors.
- **Our view:** The SLT supervisory board should initially evaluate the implications of the proposals by AOC/Cammann regarding its own capital increase plans (open outcome, potentially legal appeals to come in case of rejection). No matter which option, in our view the capital raise volume might finally not be enough to back the new strategy (not known in details, yet) and finally restructure SLT. The ultimate plans of AOC (potential restructuring in parts with subsequent company sale?) and Cammann (comeback into the company / the supervisory board?) are still completely unclear.

The entrance of Active Ownership Capital / Cammann and unclear strategic plans lead again to high uncertainty within the company. The proposed capital increase from AOC as well as the one from SLT are in our view only a first step to provide sustainable leeway. The envisaged EUR 34 respectively 36 issue price provide a temporary „floor price" to the stock. At estimated 40% likelihood for a mid-term potential takeover (30% premium – in case AOC will prevail as a shareholder and company sale is the goal), the new FV is EUR FV 39 per share. Fundamentals move momentarily into the background.

Selected Companies	Price on 10 May 2017	PER 17e	PER 18e	EV / EBITDA 17e	EV / EBITDA 18e	EV / Sales 17e	Re-com.
Schaltbau Holding	**35.17 EUR**	**26.5**	**16.7**	**13.9**	**11.1**	**0.83**	→
Ansaldo STS S.p.A.	12.49 EUR	27.2	26.0	13.5	12.6	1.47	–
WABTEC	81.37 USD	20.1	17.8	13.1	11.7	2.23	–
CRRC Corp.	7.29 HKD	14.7	12.9	10.2	8.7	1.01	–
ALSTOM	30.75 EUR	16.9	15.3	10.7	9.7	0.91	↑
Median for all peer group companies		**20.1**	**20.5**	**10.8**	**9.5**	**1.05**	**–**

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
Completed: 11 May 2017, 17:09

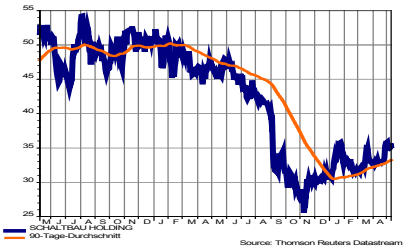
Hold (prev. Hold)

Closing price 10 May 2017 (in EUR):	35.17
Fair value:	39.00 (prev. 34.00)

Financial ratios 2017e:	
Book value per share (in EUR):	13.60
Equity ratio (in %):	25.9
Net margin (in %):	1.9
ROE (in %):	8.6
Dividend yield (in %):	0.9
Free cash flow (EUR m):	12.3
Net debt (EUR m):	185.7

Number of shares (million units):	6.2
Market cap (in EUR m):	216.37
Free float (in %):	70.0
SIN:	717030
ISIN:	DE0007170300
Datastream:	D:SLTX

Next Newsflow:
May 18th 2017 Q1 reporting
June 8th 2017 Annual General Meeting



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Bank on Germany

First published: 11 May 2017, 17:13

1) – 12) Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

Valuation

The ROE/COE model implies a FV of 39 Euro

	2017	2018	2019
ROE (After tax and minorities)	8.6%	12.1%	14.2%
Cost of Equity	7.3%	7.3%	7.3%
Fair multiple			2.1
Book value 2018e (DZ BANK)			17.7
Fair Value of Equity			37.0
Dividend	0.30	0.50	0.80
Discounted fair value of equity			32.9
Discounted value of dividends			1.50
Takeover premium (40% likelihood for 30% premium)		12%	4.1
Fair Value per share			**39**

Source: DZ BANK

AT A GLANCE

Company profile

The Schaltbau Group designs and supplies systems and components for transport technology and industry throughout the world. It has a clear policy of focusing on niche products with a small number of competitors. The most important sales markets are rail transport (50%), the automotive sector (25%), and industry (25%).

Basis for investment recommendation

Sound product portfolio to benefit from the trend "intelligent electronic systems" (so called "smart trains"). Potentially further project delays i.e. in Mobile Transportation Technology, market environment remains tough. Profitable orders in Stationary Transportation still rare. Company in restructuring mode.

Price sensitive current issues

- Schaltbau Holding possesses a well balanced business model and extends / changes its portfolio range step by step
- Further project delays might question the target achievements again
- SLT historically grew via M&A, however, the financial endurance of the balance sheet is momentarily stretched, the integration still needs to improve
- It remains open, in which year SLT may restore former 7-9% margin levels again

Opportunities and risks

Opportunities	Risks
New niche applications (automation and "smart trains")	Political crises impact country strategies and project order habits
Gain of market share (focussed internationalisation)	Delays of the planning of crossings
Active market consolidation	Project risks
Successful turnaround i.e. of the business units ALTE and Albatros	Temporary client order hesitation (China, Deutsche Bahn)

Topical share price-sensitive issues along with risks and opportunities have been factored into our recommendation as far as possible. Taking into account the current share price, we believe that price-sensitive risks and opportunities are evenly balanced at present.

PROFIT AND LOSS ACCOUNT

Euro m	2016	2017e	2018e	2019e	2020e
Sales	**508.9**	**517.7**	**534.8**	**545.5**	**556.4**
Change in inventory/Own work	6.0	7.5	9.0	10.5	12.0
Total output	**514.9**	**525.2**	**543.8**	**556.0**	**568.4**
% against prev. year	3%	2%	4%	2%	2%
Cost of materials	-247.2	-252.1	-261.0	-266.9	-272.8
Personnel expenses	-166.8	-170.2	-176.2	-180.1	-184.2
Other operating income	6.7	6.8	7.1	7.2	7.4
Other operating expenses	-107.8	-78.4	-74.5	-70.1	-65.9
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	**-0.2**	**31.4**	**39.1**	**46.1**	**52.9**
For information: EBITDA adjusted	-0.2	31.4	39.1	46.1	52.9
Depreciation	-15.3	-14.1	-14.6	-14.8	-15.1
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	**-15.6**	**17.3**	**24.5**	**31.3**	**37.8**
For information: EBIT adjusted	-15.6	17.3	24.5	31.3	37.8
% against prev. year	-142%		42%	27%	21%
Interest paid / received	-3.2	-3.6	-2.9	-2.3	-2.1
Profit before tax	**-18.7**	**13.7**	**21.7**	**29.0**	**35.7**
For information: EBT adjusted	-18.7	13.7	21.7	29.0	35.7
% against prev. year	-158%		58%	34%	23%
Income taxes from continuing operations	5.1	-3.7	-5.9	-7.8	-9.7
Tax rate	27%	27%	27%	27%	27%
Net profit from continuing operations	**-13.7**	**10.0**	**15.8**	**21.2**	**26.1**
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	**-13.7**	**10.0**	**15.8**	**21.2**	**26.1**
Profit or loss attributable to minority interest	2.5	-1.8	-2.9	-3.9	-4.8
Profit or loss attributable to shareholders	**-11.1**	**8.2**	**12.9**	**17.3**	**21.3**
thereof from continuing operations	-11.1	8.2	12.9	17.3	21.3
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	6.047	6.152	6.152	6.152	6.152
IFRS earnings per share, diluted	-1.84	1.33	2.10	2.81	3.46
Adjusted earnings per share, diluted (contin.)	-1.84	1.33	2.10	2.81	3.46
Fiscal year end December					

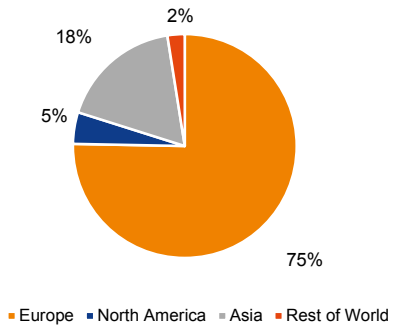
Source: Schaltbau Holding and DZ BANK estimates

RATIOS

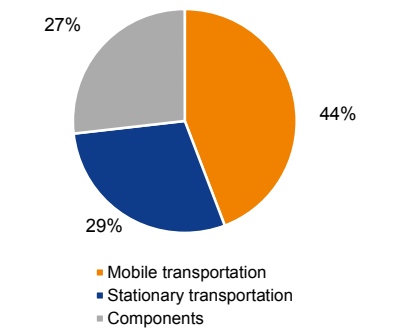
Euro	2016	2017e	2018e	2019e	2020e
Profit and loss ratios					
Total output (m)	514.9	525.2	543.8	556.0	568.4
EBITDA margin	0.0%	6.0%	7.2%	8.3%	9.3%
EBIT margin	-3.0%	3.3%	4.5%	5.6%	6.7%
Net margin	-2.7%	1.9%	2.9%	3.8%	4.6%
Investment ratio	3.3%	3.4%	3.5%	3.5%	3.6%
R&D as % of total output					
Net other operating costs as % of total output	19.6%	13.6%	12.4%	11.3%	10.3%
Net financial income as % of total output	-0.6%	-0.7%	-0.5%	-0.4%	-0.4%
Interest cover		4.9	8.6	13.9	18.4
Average sales growth next five years	2.5%				
Average earnings growth next five years					
Profitability ratios					
ROE	-12.8%	8.6%	12.1%	14.2%	15.3%
ROCE	-5.7%	6.4%	8.7%	10.8%	12.7%
Productivity ratios					
Sales per employee ('000)	169.80	166.54	165.79	162.99	326.84
EBIT per employee ('000)	-5.13	5.48	7.48	9.16	21.73
Balance sheet ratios					
Equity ratio	24.3%	25.9%	28.0%	30.6%	33.4%
Long term debt and equity / Fixed assets	149.7%	149.5%	151.0%	151.7%	153.0%
Liquidity (quick ratio)	115.9%	119.1%	122.0%	126.1%	131.7%
Receivables as % of total output	20.8%	19.7%	19.7%	19.6%	19.6%
Investment (net of GW) / Depreciation	111.1%	126.8%	129.0%	132.8%	136.8%
Working capital as % of total output	22.0%	20.6%	20.7%	20.7%	20.7%
Net debt (m)	194.2	185.7	183.1	178.6	172.0
Net debt complete (m)	188.3	174.4	166.1	155.6	142.8
Figures per share					
Earnings per share, diluted	-1.84	1.33	2.10	2.81	3.46
Free cash flow per share, diluted	-2.40	2.01	1.25	1.70	2.32
Dividend per common share	0.00	0.30	0.50	0.80	1.00
Cash per share, diluted	1.11	2.47	2.89	3.63	4.69
Net debt per share, diluted	32.11	30.19	29.77	29.03	27.96
Valuation ratios					
Enterprise value / Sales	0.8	0.8	0.8	0.8	0.8
Enterprise value / EBITDA		13.9	11.1	9.4	8.2
Enterprise value / EBIT		25.2	17.8	13.9	11.5
EV/Sales to sales growth	0.31	0.33	0.31	0.31	0.30
PEG ratio - common shares					
Fiscal year end December					

Source: Schaltbau Holding, DZ BANK estimates

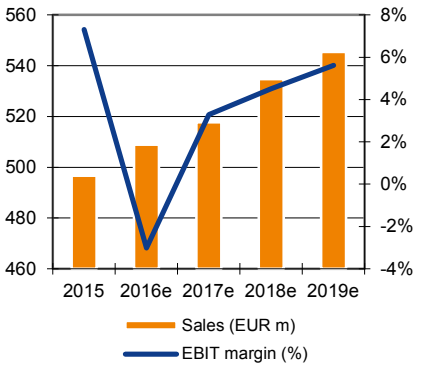
SALES BY REGION 2015



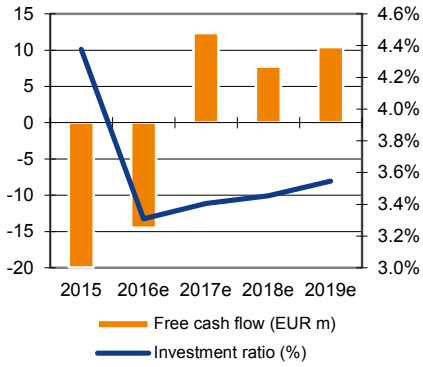
SALES BY BUSINESS SEGMENT 2015



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



I. IMPRINT

Published by:
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1. Mandatory Disclosures for Financial Analyses and further Remarks

1. Responsible Company

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Financial analyses are **independent client information** containing **generic investment recommendations** regarding **specific issuers** or **specific financial instruments, but they do not** make allowance for any individual investment criteria.

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- this Research Publication represents his independent specialist evaluation of the analysed object in compliance with the Conflicts of Interest Policy of DZ BANK and
- his compensation depends neither in full nor in part, neither directly nor indirectly, on an opinion expressed in this Research Publication.

4. Definitions of the Categories for Investment Recommendations in Financial Analyses

The **categories** for **investment recommendations** in **Financial Analyses** of DZ BANK are defined as follows:

4.1 Shares:

- Fundamental Analysis:
"Buy" means that the absolute appreciation expected in the next twelve months is greater than 10%.
"Sell" means that the absolute depreciation expected in the next twelve months is greater than 10%.
"Hold" means that the absolute *price* volatility expected in the next twelve months lies between +10% and -10%.

- Technical (Chart) Analysis (tertiary trend):
The short term technical estimate refers to the short tertiary move of the share:
„**Positive**" means that an absolute appreciation could be expected during the next week.
"**Negative**" means that an absolute depreciation could be expected during the next week.
"**Neutral**" means that no absolute change of price could be expected during the next week.

- Technical (chart) Analysis (secondary trend):
The longer term technical estimate refers to the shorter secondary move of the share:
„**Positive**" means that an absolute appreciation greater than 10% could be expected during the next six months.
"**Negative**" means that an absolute depreciation greater than 10% could be expected during the six months.
"**Neutral**" means that an absolute change of price between +10% to -10% could be expected during the next six months.

4.2 Fixed Income Instruments:
The prevailing factor for an investment recommendation regarding an **issuer** is whether, according to the estimate of DZ BANK, this issuer's bonds are able to perform better, worse or in tandem with the bonds of comparable issuers in the next six months. The below defined recommandation categories apply to 'senior unsecured bonds' denominated in Euro and in case of Emerging Markets issuers in individual cases also in US-Dollar as well as to 'covered bonds issued by credit institutions' in Euro:
"Outperformer" means that a better performance is expected for the issuer's bonds than for the bonds of comparable issuers.
"Underperformer" means that a worse performance is expected for the issuer's bonds than for the bonds of comparable issuers.
"Market performer" means that the performance of the issuer's bonds is not expected to materially differ from the bonds of comparable issuers.

4.3 Categories for isolated statements without investment recommendation
Statements on the **isolated evaluation of specific aspects** that **precede an investment recommendation** on a financial instrument and / or an issuer - **especially** according to the **sustainability criteria** defined by DZ BANK, its defined **value approach**, its defined **asset allocation** (DZ BANK Sample Portfolio), its defined sector strategy Euro-Stoxx (**DZ BANK Sector Favorites**), its defined valuation of payments to beneficiaries (**DZ BANK Dividend Aristocrats**) , its **country weightings for covered bonds** and its **CRESTA-SCORE MODEL** - are **not investment categories** and therefore **do not contain** any **investment recommendations**.
These isolated statements **alone** are **not sufficient** to form the basis of an investment decision. Reference is made to the explanation of the used relevant methods.

5. Scheduled Updates and Validity Periods of Investment Recommendations

5.1 The frequency of **updates** of **Financial Analyses** depends in particular on the underlying macroeconomic conditions, current developments on the relevant

markets, the current development of the analyzed companies, measures undertaken by the issuers, the behavior of trading participants, the competent supervisory authorities and the competent central banks as well as a wide range of other parameters. The periods of time named below therefore merely provide a **non-binding indication** of when an updated investment recommendation may be expected.

5.2 **No obligation exists to update an investment recommendation**. If an investment recommendation is updated, this update **replaces** the previous **investment recommendation with immediate effect**.
If no update is made, investment recommendations **end / lapse on expiry** of the **validity periods** named below. These periods **begin** on the **day** and at the **time** the investment recommendation is **completed**.

5.3 The **validity periods** for investment recommendations (**financial analyses)** are as follows:

Shares:	
Fundamental analysis	six months
Technical (chart) analysis (tertiary trend)	one week
Technical (chart) analysis (secondary term)	six months
Fixed income instruments:	
Issuers (senior unsecured bonds)	six months
Issuers (covered bonds)	one trading day

5.4 **Evaluations of isolated aspects without investment recommendation** have the following validity periods:

Sustainability analyses:	one month
Analyses according to the **value approach:**	one month
Asset allocation analyses (**DZ BANK Sample Portfolio**):	one month
Euro Stoxx sector strategy (**DZ BANK Sector Favorites**):	one month
Dividends **(DZ BANK Dividend Aristocrats)**:	three months
Credit trend issuers	twelve months
Share indices (fundamental):	three months
Share indices (technical / chart analysis):	one week
Share indices (technical daily):	publicationday
Currency areas:	six to twelve months
Allocation of market segments	one month
Country weightings for covered bonds:	six months
Derivatives:	
(Bund futures, Bobl futures, treasury futures, Buxl futures):	one month
Commodities:	one month

5.5 In a given case, updates of analyses may also be **temporarily suspended without prior announcement** on account of compliance with supervisory regulations.

5.6 If **no updates are to be made in the future** because the analysis of an object is to be discontinued, notification of this shall be made in the final publication or, if no final publication is made, the close of the analysis shall be given in a separate note.

6. General Overview of Investment Recommendations on Financial Instruments and Issuers

Each working day DZ BANK prepares a **general overview** of **all investment recommendations** on financial instruments and / or issuers disseminated in the last **twelve months**, containing all details specified by the supervisor. This list can be **read** and **downloaded free-of-charge** under **www.dzbank.com/disclosures**.

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7.5 Other theoretically feasible, information-based personal conflicts of interest among employees of the Research and Economics Division and persons closely associated with them are avoided in particular by the measures explained in **sub-paragraph 7.2** and the other measures described in the policy.

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7.8 **Investment recommendations for the same financial instrument / issuer that have deviated in the last 12 months are stated in the respective current Financial Analysis together with the relevant investment recommendation category and date.**

7.9 The **quarterly information** on the share of the investment categories stated in **sub-paragraph 4.1** and **4.2** for **shares** and **fixed income instruments** in the total number of investment recommendations of DZ BANK **and** the **information** on the share of these categories relating to the issuers to whom DZ BANK has rendered services in the **past twelve months** in accordance with Appendix I Sections A and B of Directive 2014/65/EU, can be **read** and **downloaded free-of-charge** under **www.dzbank.com/disclosures**.

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4) The issuer holds shares of DZ BANK exceeding 5 % of its total issued share capital.

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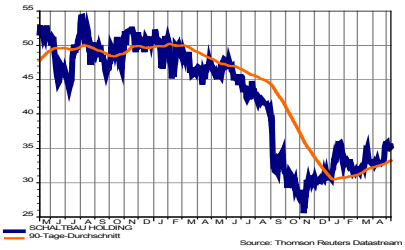

RATING HISTORY

Recommendation	Date	Price
Hold	15 Aug 2016	42.00 EUR

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