



26 July 2007

Equity Research Institutional

Company

Flash

R. Stahl

Rating

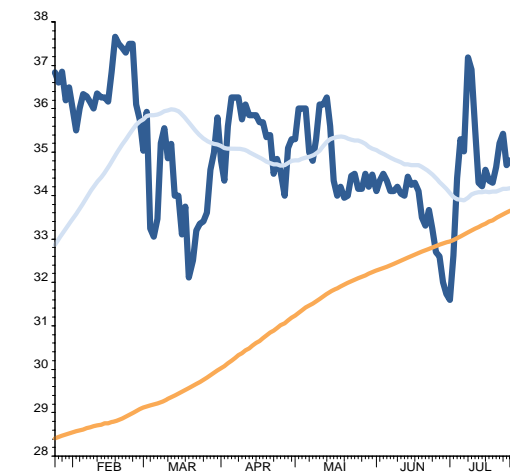
Buy (unchanged)

First successes from growth strategy visible ▶

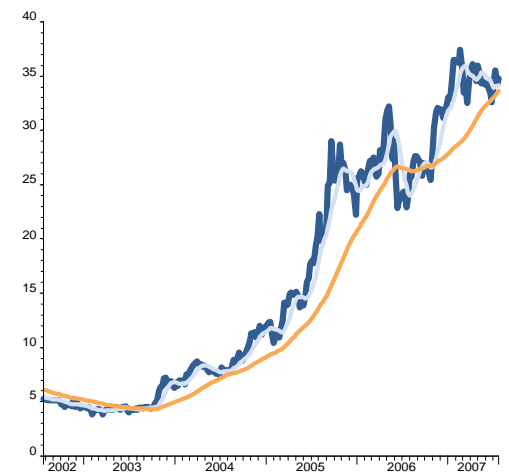
Continuously good general economic conditions ▶

Preliminary Q2 figures above expectations ▶

Price target increased from € 38.00 to € 43.00 ▶



— 38D Moving Average
— 200D Moving Average



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream

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Buy

Target price: € 43.00

Price: € 35.25

07/26/07

13:06 h

Last rating/Target price:

Buy /€ 38.00

Last analysis:

12/22/2006

S&P rating: n.a.

Explosion protection

Number of shares:

5,9 m

Market capitalisation:

€ 208.8 m

Index: Prime Industrial

Index weight: 0.05 %

Beta: 0.80

Accounting:

IFRS

Calendar:

Quarterly report on

08/14/2007

2007e dividend: 1.00

ISIN: DE0007257727

Bloomberg: RSL1 GY

Reuters: RSLG.DE

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R. Stahl

07/26/2007

Reason: Company Update

Growth strategy with first successes

The continuously good economic situation allows us to expect a lastingly positive business performance. Implementation of the company strategy is already showing acceleration in growth, which in our opinion should continue. The sales mix and the required intermediate input almost inevitably cause slight damage to the margin performance, which we estimate to be temporary. All in all we expect a continuation of the positive earnings trend. In view of the favourable valuation, we are affirming our Buy recommendation and increasing the price target from € 38.00 to € 43.00.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new €	old €			
2006	1.75	1.63	1.1	7.0	18.7
2007e	1.90	2.01	1.0	6.3	18.6
2008e	2.40	2.38	0.9	5.9	14.7
2009e	2.72	n.a.	0.8	5.4	13.0

Company ratios	Sales m €	EBITDA m €	EBIT m €	EBIT-Margin	Net result m €
2006	167.1	25.4	18.5	11.1 %	12.6
2007e	191.5	28.9	21.1	11.0 %	12.8
2008e	212.1	32.7	24.6	11.6 %	14.2
2009e	230.2	35.9	27.6	12.0 %	16.1

- According to the preliminary key data published today, the order intake was increased in Q2 by 29 % to € 55.9 m (LBBWe: € 49.9 m) and thus asserted its dynamic from Q1 well. Sales increased by 27 % to € 49.9 m (LBBWe: € 47.0 m). Thus growth could even be accelerated compared to Q1. EBT increased by 17 % to € 5.4 m (LBBWe: € 5.0 m). As such, an EBT margin of 10.4 % was achieved in Q2 (Q1 adjusted 9.6 %), which was slightly above the higher end of the forecast range. Net income was burdened by a one-off tax provision of €2.5 m and thus reached a level of just € 5.5 m in the first half year.
- R. Stahl today increased its sales forecast by € 10 m to between € 190 m and € 200 m and expects its gross sales return from now on to be in the top area of the forecast range of 8 % to 10 %.

Please note the disclaimer on the last page of this study.

Valuation

Valuation according to multiples

Peer Group	PER		EV/Sales		EV/EBITDA		EBITDA-Margin 08e
	2007e	2008e	2007e	2008e	2007e	2008e	
Cooper Industries	18,9	16,8	1,94	1,81	11,8	11,0	16,5%
Hubbell Inc.	18,2	15,6	1,37	1,30	10,6	9,6	13,5%
MTL Instruments	17,9	15,3	1,20	1,04	9,9	8,3	12,5%
Median	18,2	15,6	1,37	1,30	10,6	9,6	13,5%
Average	18,3	15,9	1,50	1,38	10,8	9,6	14,2%
R. Stahl	18,1	14,0	0,98	0,88	6,5	5,6	15,7%
Markup/markdown to peer group-Median	-0,8%	-10,2%	-28,9%	-32,3%	-39,1%	-41,5%	

Source: Value Line, I/B/E/S, LBBW

- The valuation of R. Stahl takes place based on established market value multiples by comparison with the average values of the peer group, which consists of listed competitors. One limiting factor should, however, be taken into consideration: both US companies provide a relatively wide range of electro-technical products, and thus the share of explosion prevention only plays a subordinate role.
- This shows that the EV figures continue to be significantly below the median of the comparison group. In general, the valuation gap has again increased recently after all three peers had share price increases between 27 % and 29 % since the beginning of the year. R. Stahl, however, was only able to increase by 6 %, which in our opinion does not seem to be fundamentally justified.

Discounted cash flow valuation

- As an alternative to the valuation according to multiples, we have again valued R. Stahl using a discounted cash flow model (DCF). This has enabled the positive future prospects of the company to be accounted for adequately in the longer term.
- To value the group by means of a discounted cash flow, we chose the entity approach. In it, the free cash flow is calculated under fiction of complete self-financing of the company for each of the plan years. The capital structure flows over the target capital structure into the weighted average cost of capital (WACC).
- The assumptions have been adjusted to the changed estimates in comparison to the last valuation. Increasing interest rates and a lower market risk premium led to a slight increase in WACC from 7.1 % to 7.3 %.

DCF model - input parameters

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

Source: LBBW

- The expected development of the operating free cash flows is shown from 2007 to 2016, whereby detailed forecasts form the basis in the first phase through 2009. The second phase from 2010 until 2016 is an update of the essential value drivers with digressive progress. We have assessed the EBIT margin more cautiously than expected for the last forecast year.

Free Cash Flow (€m)	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Sales	192	212	230	250	270	290	310	330	350	370
<i>growth (yoy)</i>	14,6%	10,8%	8,5%	8,5%	8,0%	7,5%	7,0%	6,5%	6,0%	5,5%
EBIT	21,1	24,6	27,6	30,0	31,0	31,9	32,6	33,0	33,3	33,3
<i>EBIT margin</i>	11,0%	11,6%	12,0%	12,0%	11,5%	11,0%	10,5%	10,0%	9,5%	9,0%
- taxes on EBIT	7,4	8,6	9,7	10,5	10,9	11,2	11,4	11,6	11,6	11,6
<i>Tax ratio</i>	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%
+ Depreciation	7,8	8,1	8,3	9,0	9,7	10,1	10,9	11,6	12,3	12,9
<i>of sales</i>	4,1%	3,8%	3,6%	3,6%	3,6%	3,5%	3,5%	3,5%	3,5%	3,5%
Accruals	46,0	48,8	50,6	52,5	55,3	58,0	60,5	62,8	64,8	66,5
<i>of sales</i>	24,0%	23,0%	22,0%	21,0%	20,5%	20,0%	19,5%	19,0%	18,5%	18,0%
+ Delta accruals	1,9	2,8	1,9	1,8	2,8	2,7	2,5	2,3	2,0	1,7
= Operating Cash Flow	23,4	26,9	28,1	30,3	32,7	33,6	34,5	35,3	35,9	36,3
- Capex	9,6	10,2	10,4	10,5	10,8	11,3	11,8	12,2	12,6	12,9
<i>of sales</i>	5,0%	4,8%	4,5%	4,2%	4,0%	3,9%	3,8%	3,7%	3,6%	3,5%
Net Working Capital	28,7	31,8	34,5	37,5	40,5	43,5	46,5	49,6	52,5	55,4
<i>of sales</i>	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
- Delta Net Working Capital	-2,0	3,1	2,7	2,9	3,0	3,0	3,0	3,0	3,0	2,9
= Free Cash Flow	15,8	13,6	15,0	16,9	18,9	19,2	19,7	20,1	20,3	20,4
Present Value	14,3	11,5	11,8	12,4	12,9	12,3	11,7	11,1	10,5	10,6

Source: LBBW

- A fair value per share of € 43.86 is calculated based on the DCF model, which gives an upside potential of 24 %.

Fair Value per share (€m.)

Present Value Free Cash Flow planned years	108,2
+ Present Value Terminal Value	179,5
= Enterprise Value	287,7
<i>TV of Enterprise Value</i>	62,4%
- Net Financial Debt	26,6
- Minorities	1,2
+ Peripheral Assets	0,0
= Market cap total	259,9
/ number of common stocks	5,9
= Fair Value per share (€)	43,86

Source: LBBW

Recommendation

- The continuously good economic situation allows us to expect a lastingly positive business performance. Implementation of the company strategy is already showing acceleration in growth, which in our opinion should continue. The sales mix and the required intermediate input almost inevitably cause slight damage to the margin performance, which we estimate to be temporary. All in all we expect a continuation of the positive earnings trend. In view of the favourable valuation, we are affirming our Buy recommendation and increasing the price target from € 38.00 to € 43.00

Development in the current business year

Company data	HJ 2007	HJ 2006	change
Incoming orders (€ m)	111,1	86,5	28,4%
Net sales (€ m)	97,2	78,2	24,3%
EBT* (€ m)	11,5	8,6	33,7%

* incl. € 1.55 m extraordinary profit

Source: R. Stahl, LBBW

- The growth of the order intake and sales has benefited from the most recent portfolio transactions (sale of IT division and Tranberg acquisition) by approx. € 5 m. The adjusted growth rates thus reach 23 % (order intake) and 18 % (sales), though this still shows growth acceleration compared to the previous year.
- The main drivers were the systems and initial equipment business. However, it is out of the question to say that only a number of large orders are responsible for the high growth. Regional sales growth in Asia (+51 %) and America (+46 %) was especially pleasing. The order backlog reached a record level as of the end of June with € 45.4 m, which was mostly due to longer-term projects but also, to a lesser extent, longer lead times.
- A book gain of € 1.55 m resulted from the sale of the small IT division, which was taken over in January by the Dutch company Centric. With a plus of 15 %, the operating profit (EBT) adjusted by this income rose under-proportionately to sales. Not only was the increasing share of initial equipment business noticeable here, but the implementation of the growth strategy was as well, which emerged in a temporary levelling off of the earnings dynamic.

Outlook

- R. Stahl expects sales of between € 190 m and € 200 m (sales increase of 14 % to 20 %) for the current financial year and an EBT level at the higher end of the "usual" range of 8 % to 10 % (previous year 9.9 %). This forecast underlines in our opinion two incompatible trends, which have an effect here.
- The increasing sales share of low margin initial equipment orders burdens the earnings performance temporarily, but is an indispensable base for the maintenance and after-market equipment business in the future. Furthermore, there is the implementation of the growth strategy, which initially necessitates an array of intermediate inputs. This means that earnings growth must be generated more intensely over the top line, as the margin performance should stagnate or even slightly decrease in the current year.

- The margin performance, however, is benefiting from the sale of the IT business, which contributed a slightly negative EBT of € -15 K last year with sales of € 8.7 m. Furthermore, the book gain achieved from this sale cushions earnings, as it was posted as other operating income. In order to make the operating profit more visible, we have identified this contribution to earnings as “discontinued”. Moreover, we have adjusted the EPS effect for our yearly forecasts (€ 0.26 after € 0.38) as in the previous year.
- R. Stahl got a large-scale order for 25,000 lights for the world’s largest refinery, which Reliance is currently building in India. On this basis, they began considerably extending the Chennai location last year. In addition to setting up a local lighting unit, the company is also becoming more and more integrated in the international supply chain. This should mean that the workforce will rise from currently at least 50 employees to more than 100 in the coming two years.
- Annual growth of 15 % is targeted in the America and Asia regions. This was already achieved in America in 2006. The strengthened sales expansion and the larger (certified) product range can be noted here. In our opinion, 2007 should see both regions surpassing their targets.
- Taking into consideration the good order trend, we expect conservatively estimated sales of € 191.5 m (+14.6 %), which taking into consideration the sale of the information technology means that we need to raise our forecast. We have thus dropped our EBIT estimate slightly. A significant aspect results from the acquisition of Tranberg. The disclosure of hidden reserves in the amount of € 5.6 m (purchase price € 8.9 m) means a yearly accrual of an additional € 0.6 m for intangible fixed assets alone (without goodwill). Earnings per share of € 1.90 and € 2.16 result from this without the sales proceeds.
- A series of strategic measures will have an increased effect on sales in 2008, so that we assume higher growth than before (+8.3 %) with a plus of 10.8 %. However, concerning the initial equipment share in view of the margin performance, we are somewhat more cautious than before. On the other hand, we expect a considerable tax relief after the tax reform comes into effect. In view of the high share of leasing contracts for land and buildings, we are initially budgeting a tax rate of 35 %. In our estimate, earnings per share of € 2.40 should result from this (previously € 2.38).
- By 2011 sales should be back up at the level before the sale of the material handling technology, i.e. € 250 m to € 300 m. Internal growth of 10 % is the aim. In addition, two smaller acquisitions similar to Tranberg (2006 sales € 13 m) could come in the medium term. The gross return on sales should continue to range from 8 % to 10 %.
- These mid-term forecasts are very cautious. Without acquisitions we already expect sales to be mid-range. In our assessment, the margin should increase further in the medium term after investments in growth as with the sales mix have stabilised by that time.

Income statement	2005	2006	2007e	2008e	2009e
€m					
Net sales	150,2	167,1	191,5	212,1	230,2
Change in inventories + other own work capitalised	1,3	4,9	4,1	3,2	2,3
Total operating performance	151,5	172,0	195,6	215,3	232,5
Cost of materials	45,9	54,3	66,2	73,8	80,5
Personnel expenses	62,8	66,3	71,4	77,1	82,5
Other operating expenses	30,1	32,6	35,6	38,2	40,1
Other operating income	4,0	6,6	8,0	6,5	6,5
EBITDA	16,7	25,4	28,9	32,7	35,9
<i>Margin</i>	<i>11,0</i>	<i>14,8</i>	<i>14,7</i>	<i>15,2</i>	<i>15,4</i>
Depreciation and amortisation	7,4	6,9	7,8	8,1	8,3
EBIT	9,3	18,5	21,1	24,6	27,6
<i>Margin</i>	<i>6,2</i>	<i>11,1</i>	<i>11,0</i>	<i>11,6</i>	<i>12,0</i>
Financial result	- 4,2	- 2,0	- 2,1	- 1,9	- 1,8
EBT	5,1	16,5	19,0	22,7	25,8
<i>Margin</i>	<i>3,4</i>	<i>9,6</i>	<i>9,7</i>	<i>10,5</i>	<i>11,1</i>
Taxes on income	5,0	5,9	7,2	7,9	9,0
EAT	0,1	10,6	11,8	14,8	16,8
<i>Margin</i>	<i>0,1</i>	<i>6,2</i>	<i>6,0</i>	<i>6,9</i>	<i>7,2</i>
Earnings discontinuing operations	32,5	2,2	1,6	0,0	0,0
Minorities	0,4	0,3	0,5	0,6	0,7
Net profit	32,2	12,6	12,8	14,2	16,1
Earnings per share (€)*	1,45	1,75	1,90	2,40	2,72

* Earnings per share adjusted and without discontinuing operations

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44.9 %	40.6 %	14.5 %

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Date	Rating
11/21/2003	Buy

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