



14 January 2008

Equity Research Institutionals

Company

Flash

R. Stahl

Rating

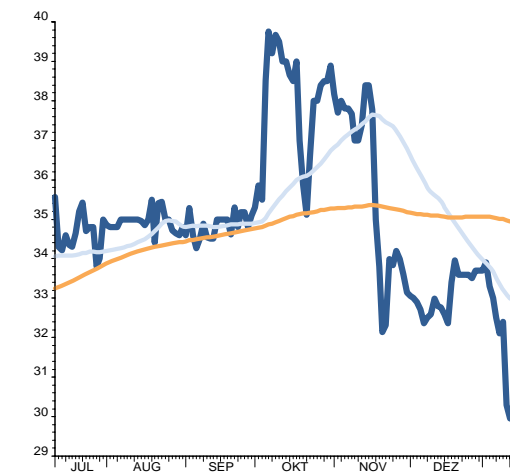
Buy (unchanged)

Growth initiatives bear fruit faster than expected ▶

One-off tax burden weighs on 2007 net income ▶

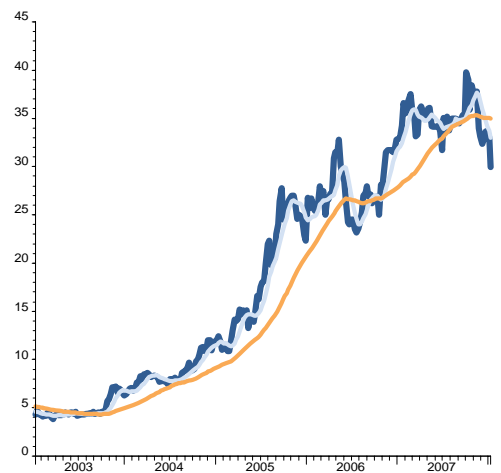
Sales and earnings estimates raised further ▶

Rating and price target unchanged at € 43.00 ▶



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



— 38D Moving Average
— 200D Moving Average

Source: Thomson Datastream



Buy

Target price: € 43.00

Price: € 29.24

01/14/08

13:54 h

Last rating/Target Pr.:

Buy /€ 43.00

Last analysis:

07/27/2007

S&P rating: n.a.

Explosionsschutz

Number of shares:

5.924 m

Market capitalisation:

€ 173.2 m

Index: Prime Industrial

Index weight: 0.06 %

Beta: 0.80

Accounting:

IFRS

Calendar:

Prel. Q4 in March 2008

Dividend 2007e:

1.00 €

ISIN: DE0007257727

Bloomberg: RSL1 GY

Reuters: RSLG.DE

Harald Rehmet

BA in Business Administration

Investment analyst

Tel. +49 711 127-74504

Harald.Rehmet@LBBW.de

Equity Research

Landesbank Baden-

Württemberg

Am Hauptbahnhof 2

70173 Stuttgart

www.LBBW.de

R. Stahl

01/14/2008

Topic: Company update

Growth strategy bears fruit faster than expected

We do not consider the share price performance justified given the excellent operating performance and the low cyclical nature of the business model. This is supported by a number of customer industries, which in turn profit from the structural market changes, such as in the oil and gas industry. Add to this the introduced growth initiatives, which are likely to far outweigh the impact of the economic cool down. We confirm our Buy rating but, because of the negative sentiment towards small and midcaps, we leave our price target unchanged at € 43.00.

Share ratio	Earnings per share		EV/Sales	EV/EBITDA	PER
	new	old			
	€	€			
2006	1.75	1.75	1.1	7.0	17.2
2007e	1.76	1.90	0.9	5.5	17.0
2008e	2.89	2.40	0.7	4.4	10.4
2009e	3.24	2.72	0.6	4.0	9.3

Company ratios	Sales	EBITDA	EBIT	EBIT Margin	Net result
	m €	m €	m €		m €
2006	167.1	25.4	18.5	11.1 %	12.6
2007e	211.5	31.5	23.7	11.2 %	12.0
2008e	235.2	36.0	27.7	11.8 %	17.1
2009e	253.6	39.3	30.7	12.1 %	19.2

- Cooper Industries, Ltd., a widely diversified US electrical products group and global leader in products to protect from electrical explosions, under the brand name Cooper Crouse-Hinds (ca. 20 % of global market share in market relevant to R. Stahl), submitted a takeover offer on 19 December 2007 for its competitor MTL Instruments Group plc. By the end of the first deadline on 10 January 2008, Cooper had been tendered 91.9 % of the shares. The second term of acceptance ends on 24 January 2008. We do not expect this to have any direct effects on the business performance of R. Stahl.
- MTL Instruments (approx. 5 % of global market share in market relevant to R. Stahl) posted 2006 sales of GBP 85.5 m and net income of GBP 5.5 m, with a focus on products to protect from electrical explosions. Three smaller acquisitions were made during the course of 2007.
- With the takeover, MTL is valued at GBP 144 m, which corresponds to an EV/sales multiple of 1.7 (2006) and 1.6 (2007). Based on EV/EBITDA, multiples of 15.0 (2006) or 13.1 (2007) were paid.

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

Valuation

Peer group comparison

- After Cooper's takeover offer for MTL Instruments, our narrow peer group is reduced to only two competitors. As conglomerates, they were anyway only comparable to a limited extent. We will thus skip the peer group comparison in future. In any case, the offered purchase price confirms the undervaluation of R. Stahl.

Discounted cash flow valuation

- We have chosen the entity approach to value the group using the discounted cash flows. This calculates the free cash flows of the individual planning year as though the company were completely equity financed. The capital structure of the company is considered in the weighted average cost of capital (WACC) via the target capital structure.
- In comparison to the previous valuation, the assumptions have been adjusted to the changed estimates. Falling interest rates and the rising market risk premium led to an unchanged WACC of 7.3 %.

DCF model - input parameters

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

Source: LBBW

- The expected performance of operating free cash flows is shown from 2007 to 2016, whereby detailed forecasts underlie the first stage until 2009. For the second stage from 2010 to 2016, the essential value drivers have been extrapolated degressively.

Free Cash Flow (€m)	2007e	2008e	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e
Sales	212	235	254	273	292	311	329	347	365	381
<i>growth (yoy)</i>	26,6%	11,2%	7,8%	7,5%	7,0%	6,5%	6,0%	5,5%	5,0%	4,5%
EBIT	21,1	27,7	30,7	32,7	33,5	34,2	34,6	34,7	34,7	34,3
<i>EBIT margin</i>	10,0%	11,8%	12,1%	12,0%	11,5%	11,0%	10,5%	10,0%	9,5%	9,0%
- taxes on EBIT	9,7	8,6	9,5	10,1	10,4	10,6	10,7	10,8	10,7	10,6
<i>Tax ratio</i>	46,2%	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%	31,0%
+ Depreciation	7,8	8,3	8,6	9,5	10,2	10,9	11,5	12,2	12,8	13,3
<i>of sales</i>	3,7%	3,5%	3,4%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%	3,5%
Accruals	46,0	48,8	50,6	53,2	55,4	57,5	59,3	60,8	62,0	62,9
<i>of sales</i>	21,8%	20,8%	20,0%	19,5%	19,0%	18,5%	18,0%	17,5%	17,0%	16,5%
+ Delta accruals	1,9	2,8	1,8	2,5	2,3	2,0	1,8	1,5	1,2	0,9
= Operating Cash Flow	21,1	30,2	31,6	34,6	35,6	36,5	37,2	37,7	37,9	37,9
- Capex	12,7	14,1	11,4	11,6	11,7	12,1	12,5	12,9	13,1	13,3
<i>of sales</i>	6,0%	6,0%	4,5%	4,3%	4,0%	3,9%	3,8%	3,7%	3,6%	3,5%
Net Working Capital	37,6	41,8	44,8	48,0	51,0	54,1	57,0	59,8	62,4	64,8
<i>of sales</i>	17,8%	17,8%	17,7%	17,6%	17,5%	17,4%	17,3%	17,2%	17,1%	17,0%
- Delta Net Working Capital	6,9	4,2	3,0	3,1	3,1	3,0	2,9	2,8	2,6	2,4
= Free Cash Flow	1,4	11,9	17,2	19,9	20,9	21,4	21,8	22,0	22,1	22,1
Present Value	1,3	10,4	14,0	15,1	14,8	14,1	13,4	12,6	11,8	11,8

Source: LBBW

- The DCF model yields a fair value per share of € 47.89, indicating upside of 64 %. Given the current market situation, however, we do not anticipate that the fair value will be reachable short-term. Our price target is derived on the basis of a risk discount of 10 %.

Fair Value per share (€m.)

Present Value Free Cash Flow planned years	107,4
+ Present Value Terminal Value	204,1
= Enterprise Value	311,5
<i>TV of Enterprise Value</i>	<i>65,5%</i>
- Net Financial Debt	26,6
- Minorities	1,2
+ Peripheral Assets	0,0
= Market cap total	283,7
/ number of common stocks	5,9
= Fair Value per share (€)	47,89

Source: LBBW

Recommendation

- The share price has not been able to recover from the stock market-related setback in November and, with thin turnover figures, has recently performed on a downward trend. We do not consider this justified given the excellent operating performance and the low cyclicality of the business model. This is supported by a number of customer industries, which in turn profit from the structural market changes, such as in the oil and gas industry. Add to this the introduced growth initiatives, which are likely to far outweigh the impact of the economic cool down. We confirm our Buy rating but, because of the negative sentiment towards small and midcaps, we leave our price target unchanged at € 43.00.

Development previous business year

Company data	9M 2007	9M 2006	change
Incoming orders (€ m)	166,6	127,2	30,9%
Net sales (€ m)	153,5	119,7	28,2%
EBT* (€ m)	17,8	12,6	41,5%

* incl. € 1.55 m extraordinary profit

Source: R. Stahl

- The growth in incoming orders further accelerated in Q3 by +36 % over the prior quarters, supported by all essential customer industries. OEM orders also contributed, some with high volumes. In Q4 we expect slight, basis-related flattening. We anticipate an increase of 29 % for the full year.
- Sales in Q3 also showed an increase of 36 %. Growth in the first nine months was entirely outside Germany, raising the foreign sales share from 63 % to 71 %. The growth was primarily organic (sales effect from the takeover of Tranberg and the sale of the IT division ca. 3 % to 4 %).
- The front runner was the Asia/Pacific region with a sales leap of 77 %, followed by America with growth of 43 %. While this is partially due to the low starting basis, the success of the new growth strategy was seen in the faster tempo than we originally expected.

- Adjusted for the one-off gain from the sale of the IT division, EBT improved by 29 % to € 16.2 m, equivalent to a margin of 10.6 % (prior year 10.5 %). Given the skyrocketing growth, this should not be seen negatively, as investments in growth and friction losses from capacity expansion add to the unfavourable sales mix (rising OEM share) to burden the margin.
- After an audit in Q2 made a one-off tax provision of € 2.5 m necessary, the corporate tax reform in Q3 led to an additional burden of € 0.3 m from the revaluation of deferred taxes. Thus there was a tax rate of 49.2 % after nine months (prior year 42.8 %). Accordingly, net income rose by 25 % to € 9.0 m. Adjusted for the extraordinary gain mentioned above, the tax rate came to 53.9 % and net income only posted a rise of 4 % to € 7.5 m.
- Capital expenditures (capex) in the first nine months rose by 85 % to € 8.5 m. The holding in the Norwegian subsidiary was increased by ca. 22 % to approx. 77 % and a property for building a new office and production building was purchased through the Dutch Electromach B.V. Including the sales proceeds of the IT businesses, the far improved cash flow from operating activities of € 7.7 m (prior year € 0.5 m) was sufficient to post another positive free cash flow of € 2.2 m (prior year € -1.7 m).

Outlook

- After raising the 2007 guidance at the half-year, R. Stahl now assumes that these figures (sales € 190 m to € 200 m, EBT margin 8 % to 10 %) will be 'slightly exceeded'.
- We raise our 2007 estimate to € 211.5 m, corresponding to an increase of nearly 27 % over the prior year, which is equivalent to flattened sales growth of 23 % in Q4 vs. Q3. For EBT we now expect an increase of 39 % to € 23.0 m, which represents growth of 33 % for Q4. We therefore only assume a margin of 9.3 % in Q4. This yields a full year adjusted figure of 10.1 % (incl. one-off gain of 10.9 %).
- For the 2007 tax rate, we anticipate the level will have slightly declined to 45.7 % vs. the first nine months, which slows down net income (+18 % to € 12.5 m). Deducting the one-off gain mentioned above leaves a thin increase of 3 % or, after higher minority interests, earnings per share of € 1.76 (formerly € 1.90, prior year € 1.75).
- Although the global economy indicates a flattening of growth in 2008, we continue to see the prospects in R. Stahl's primary industries as favourable. The Electric Process Automation segment (a subsegment of the German Electrical and Electronic Manufacturers' Association, ZVEI) most closely represents the performance of the economy; R. Stahl is also impacted by this segment. In October, the ZVEI forecasted record growth of 10 % to 11 % in 2007, which is only likely to flatten slightly in 2008 to 7 % to 8 %.
- One not insignificant argument for this is the limited resources of the companies for plant construction, which is also the most important customer group for R. Stahl. In this regards, the high and still rising incoming orders for plant builders represent growth potential for R. Stahl beyond 2008.
- This, however, only represents the environment in which the company operates. Add to this the numerous initiatives for growth as well as to build up the Systems business and better enter markets outside Europe. The success of this is seen in the growth rates, which reached a completely new dimension in 2007. Particularly the improved price competitiveness, also gained by the new

production site in India, made it possible to win more orders among OEMs, which are in turn the basis for tomorrow's growth.

- While the basis effect should prevent a continuation of the speed of growth, we still expect a 2008 sales increase at the level of 2006, i.e. of approx. 11 % to 12 %. Adjusting for the one-off gain in 2007 mentioned above, we anticipate EBT growth of 19 %, as the burdening factors of the past year are likely to be less. The normalised tax rate, which we estimate to be ca. 31 % in the wake of the corporate tax reform, yields a net income leap of 42 % to € 17.7 m or € 2.89 per share (formerly € 2.40).
- We assume a further flattening of growth in 2009 and now calculate growth of 7.8 % to € 253.6 m (formerly € 230.2 m). For pre- and after-tax income, we anticipate an increase of a good 12 % to € 28.8 m pre- and € 19.9 m after-tax. This yields earnings per share of € 3.24 (formerly € 2.72).
- The strong growth and the build-up of the Systems business since 2006 has been demanding increased investment and working capital. Accordingly, the 2006 free cash flow was negative and, as already as of 30 September, is also likely to come out slightly positive for the year-end 2007. The considerably higher net income and the flattening sales and capex growth, however, as in the past, should again lead to significant, positive free cash flow returns from 2008 onwards (2008 4.9 % after expected 1.7 %).

Income statement €m	2005	2006	2007e	2008e	2009e
Net sales	150,2	167,1	211,5	235,2	253,6
Change in inventories + other own work capitalised	1,3	4,9	4,5	3,5	2,9
Total operating performance	151,5	172,0	216,0	238,7	256,5
Cost of materials	45,9	54,3	74,2	82,4	88,7
Personnel expenses	62,8	66,3	74,3	80,2	85,4
Other operating expenses	30,1	32,6	42,4	46,6	49,6
Other operating income	4,0	6,6	8,0	6,5	6,5
EBITDA	16,7	25,4	31,6	36,0	39,3
<i>Margin</i>	<i>11,0</i>	<i>14,8</i>	<i>14,6</i>	<i>15,1</i>	<i>15,3</i>
Depreciation and amortisation	7,4	6,9	7,8	8,3	8,6
EBIT	9,3	18,5	23,8	27,7	30,7
<i>Margin</i>	<i>6,2</i>	<i>11,1</i>	<i>11,2</i>	<i>11,8</i>	<i>12,1</i>
Financial result	- 4,2	- 2,0	- 2,3	- 2,1	- 1,9
EBT	5,1	16,5	21,5	25,6	28,8
<i>Margin</i>	<i>3,4</i>	<i>9,6</i>	<i>9,9</i>	<i>10,7</i>	<i>11,2</i>
Taxes on income	5,0	5,9	10,5	7,9	8,9
EAT	0,1	10,6	11,0	17,7	19,9
<i>Margin</i>	<i>0,1</i>	<i>6,2</i>	<i>5,1</i>	<i>7,4</i>	<i>7,8</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	12,0	17,1	19,2
Earnings per share in €* (Continuing Operations)	1,45	1,75	1,76	2,89	3,24
Earnings per share in € (R. Stahl Group)	5,43	2,12	2,03	2,89	3,24

* Earnings per share adjusted and without discontinuing operations

Balance sheet €m	2005	2006	2007e	2008e	2009e
Assets	154,9	167,6	185,8	202,7	218,3
Goodwill	0,2	3,4	3,4	3,4	3,4
Other intangible assets	5,3	14,7	16,1	17,9	18,6
Tangible assets	38,9	26,4	28,8	31,9	33,3
Financial assets	0,4	0,9	1,1	1,4	1,6
Other fixed assets	4,3	16,6	16,4	16,1	15,8
Fixed assets	49,1	62,0	65,7	70,6	72,7
Inventories	22,1	29,3	37,0	40,5	43,1
Trade receivables	27,5	37,5	46,5	50,6	53,3
Other receivables and assets	3,3	6,0	6,3	7,1	7,6
Cash and cash equivalents	49,0	32,9	30,2	34,0	41,7
Current assets	101,9	105,7	120,1	132,1	145,7
Discontinued operations	3,9	0,0	0,0	0,0	0,0
Liabilities	154,9	167,6	185,8	202,7	218,3
Equity	57,7	64,8	71,5	82,7	94,8
Minority interests	0,7	1,3	1,5	1,8	2,2
Pension provisions	41,5	44,1	46,0	48,8	50,6
Other provisions	9,7	10,3	13,1	14,3	15,2
Financial liabilities	15,7	15,4	14,6	13,2	11,7
Trade payables	9,6	11,7	14,8	16,0	17,2
Other liabilities	19,4	20,1	24,3	25,9	26,6
Discontinued operations	0,5	0,0	0,0	0,0	0,0

Cash flow statement €m	2005	2006	2007e	2008e	2009e
Consolidated net profit	3,1	10,6	12,5	17,7	19,9
Depreciation and amortization	7,4	7,0	7,8	8,3	8,6
Change in long term provisions	1,6	2,2	1,9	2,8	1,8
Change in working capital	0,6	- 15,8	- 6,9	- 4,2	- 3,0
Other changes	1,6	- 0,8	0,0	0,0	0,0
Cash flow from operating activities	14,3	3,3	15,3	24,6	27,3
Capital expenditure	- 5,1	- 10,4	- 12,7	- 14,1	- 11,4
Disposals/divestments	26,9	6,0	1,1	0,9	0,8
Other changes	0,0	- 8,6	0,0	0,0	0,0
Cash flow from investing activities	21,8	- 13,0	- 11,6	- 13,2	- 10,7
Proceeds from capital increase	0,0	0,0	0,0	0,0	0,0
Dividend payment	- 2,4	- 4,7	- 5,3	- 5,9	- 7,1
Change in financial liabilities	- 0,7	- 0,9	- 0,8	- 1,4	- 1,5
Other changes	- 0,3	- 0,4	- 0,3	- 0,3	- 0,4
Cash flow from financing activities	- 3,4	- 6,0	- 6,4	- 7,6	- 9,0
Other changes	- 0,8	- 0,3	0,0	0,0	0,0
Change in cash and cash equivalents	31,9	- 16,1	- 2,7	3,8	7,7
Cash and cash equivalents at start of year	17,0	49,0	32,9	30,2	34,0
Cash and cash equivalents at end of year	49,0	32,9	30,2	34,0	41,7

Please note

This research report is impartial investment research. A copy of our policy on impartial investment research is available on request. Please note that the individuals who prepared this research report may also be involved in the preparation of non-impartial research.

This research report and the information contained therein is furnished and has been prepared solely for information purposes by LBBW. It is furnished for your private information with the express understanding, which recipient acknowledges, that it is not an offer or solicitation to buy, hold or sell, or a means by which such securities or related derivatives may be offered or sold.

This research report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this research report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended) of the United Kingdom (the "Financial Promotion Order"); or (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this research report relates is available only to such persons and will be engaged in only with such persons. Persons who are not relevant persons should not rely on this research report.

The information in this report has been obtained by LBBW from sources reasonably believed to be reliable. LBBW can not verify such information, however, and because of the possibility of human or mechanical error by our sources, LBBW or others, no representation is made by LBBW that the information contained in this report is accurate in all material respects, reliable or complete. LBBW does not accept any liability for the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. None of LBBW, its affiliates, directors, officers or employees shall have any liability whatsoever for any indirect or consequential loss or damage arising from any use of this report. The recommendations contained in this report are statements of opinion and not statements of fact. Changes to assumptions, opinions and estimates may be made without notice and may have a material impact on any performance detailed.

Percentage of companies within this rating category		
Buy	Hold	Sell
55.3 %	32.1 %	12.6 %

Rating History

Date	Rating
11/21/2003	Buy

Historic information on performance is not indicative of future performance. LBBW may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and LBBW is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. However, where a recommendation in a research report differs from the recommendations in this report, concerns the same security, derivative or issuer and is issued within twelve months of this report, LBBW will indicate clearly and prominently such change and the date of this report in the new report.

Nothing in this report constitutes legal, accounting or tax advice. This report has no regard to the specific investment objectives, financial situation or needs of any specific recipient. Investments in general involve some degree of risk. The investments discussed in this document may not be suitable for all recipients and an investor may not get back the amount originally invested. Recipients should make their own investment decisions based upon their own financial objectives and financial resources. If in doubt, prior to taking any investment decision recipients should contact an investment

adviser. Where investment is made in currencies other than the investor's base currency, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Levels and bases for taxation may change.

This document is intended for the benefit of market counterparties and intermediate customers (as detailed in the UK Financial Service Authority's rules).

Distributed in the UK by LBBW, which is authorised and regulated by the Financial Services Authority.

Please note that LBBW or an associated enterprise of LBBW

- supports the company in the market by entering buy or sell orders
- has made an agreement on the production of financial analyses relating to the issuer or its financial instruments