

19 June 2008

MBB Industries AG

Buy €8.6

(Remains Unchanged)

Target Price: €15.4

Reuters Code: MBBG.DE

Bloomberg Ticker: MBB GR

EPS adj.

Dec 2007A €2.07 (2.07)

Dec 2008E €1.47

Dec 2009E €1.92

Dec 2010E €2.11

WestLB Research estimates

Market Cap: € 57m

Current recommendation since

Previous recommendation was

For disclosures and statements required by regulatory bodies, please see the last page.

Research analyst(s)

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MBB Industries AG

High quality, low valuation, but higher free float is required

- MBB INDUSTRIES delivered very solid preliminary Q1 2008 headline figures last week and yesterday announced that it will swap from the entry into the prime standard. So far 111 companies are listed in the Entry Standard and MBB INDUSTRIES will be one of 12 companies to swap into the more stringent and high quality Prime Standard. In combination with an analysis of the final FY2007 figures, especially from a cash flow and balance sheet perspective, we are taking this opportunity to strongly reiterate our Buy rating. The change into the prime segment should sharpen MBB Industries' profile to institutional investors and improve transparency due to more frequent and more detailed financial reporting. The FY2007 final accounts showed very solid cash generation, a significantly improved balance sheet (almost degereed), a book value per share of €7.65 and significant hidden reserves as evidenced in a significant jump of provisions – and all this at what we regard as a bargain valuation of only 0.17x 2008E EV/sales or 4.7x 2008 EV/EBIT, having adjusted for the market value of MBB's 80.5% stake in Delgnit. We understand that order intake in MBB's biggest affiliate Rheimelt-Henschel, an engineering company servicing the food processing and chemical industries, continues to point towards the direction of growth with order books giving visibility for FY2008 at the very least. The headline figures for Q1 2008, which were published two weeks ago, showed significant top and bottom line strength. This stock has a clear Buy rating. We would expect that share price performance could be triggered by a higher free float over the course of the year.

MBB Industries AG forecasts and multiples

Year End	Sales	EBITDA	EPS adj.	P/E	EV/EBITDA	Yield
Dec	(€m)	(€m)	(€)	(x)	(x)	(%)
2007A	114	21	2.07	4.2	2.8	0.0
2008E	178	19	1.47	5.8	2.2	0.0
2009E	190	23	1.92	4.5	1.6	0.0
2010E	199	25	2.11	4.1	1.1	0.0
Net cash/Share ¹	€2.3					
NAV/Share	€3.6					

¹ Cash/debt at end of current year

Source MBB Industries AG, WestLB Research estimates

- Q1 2008 headline figures solid. The headline figures for Q1 2008 showed sales of €44.8m and EBIT of €2.4m with net profits of €1.2m. Q1 2008 is seasonally a weak quarter: the maintenance work performed on sliced veneer, paper and beech plywood machinery leads to much reduced production at the start of the year. Given that MBB Industries is just in the process of establishing quarterly figures due to the change into the prime standard, no comparable prior year figures were reported last week. A management contact has signalled optimism about potential upside to the full-year guidance (sales of €180m, EPS of €1.65).

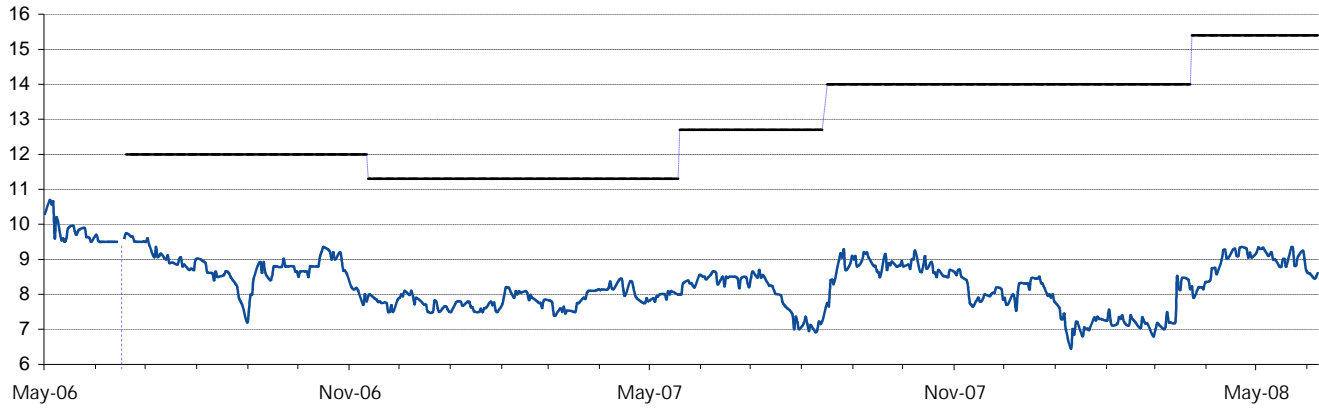
Our estimates remain slightly below the full-year guidance. We understand that the company's biggest affiliate Reimelt Henschel is continuing to perform strongly with order intake levels signalling continued business expansion.

- FY2007 finals very solid. Despite the fact that MBB INDUSTRIES has switched from HGB to IFRS with the FY2007 accounts, i.e. bargain purchases are booked into the results and not equity, the equity ratio remained at a very healthy 38% level. At the same time, MBB INDUSTRIES reduced its gearing from about €11m to €3.6m (incl. pension provisions), which gives the company significant funding power for larger scale future acquisitions. Given the fact that intangibles stood at a very low €2.4m, but operating provisions made a significant jump in FY2007 to €14.9m, i.e. more than 10% of balance sheet total and up 19x y-o-y, we consider the balance sheet quality to be very high, boasting significant hidden reserves. In any event, MBB INDUSTRIES tried, in our view, to keep bargain purchase contributions in FY2007 at a very low level rather overstating acquired liabilities and understating acquired assets. From a cash flow perspective, we are also satisfied with the FY2007 finals as MBB INDUSTRIES generated €6.5m in operating cash flow on a clean EBITDA of €12.1m (EBITDA before bargain purchase contributions), which in view of the still high level of restructuring work and acquisition-led build-up of net working capital is a good number.
- Valuation. Taking into consideration the market value of MBB INDUSTRIES' 80.5% stake in Delignit, we value the company at 0.17x 2008E EV/sales and 4.7x 2008E EV/EBIT or 1x book value despite an estimated 2008E RoE of 16.6%. From a valuation point of view, we regard MBB INDUSTRIES as a bargain. Strong Q2 08 results and a swap into the prime standard should trigger stronger performance short term in our opinion. In the medium term, a better share rating depends on an increase in the free float in our view.

Wolfgang Fickus, CFA

19 June 2008

MBB Industries AG MBBG.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
30-Jun-06	9.75	Buy						

Coverage History No Rating as of 12/05/2006 Source FactSet/JCF, WestLB Research
 Change of analyst as of 19 Sept 2006
 Initiation of coverage as of 30 June 2006

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