

31 August 2009

MBB Industries AG

Add	€7.30
(Previously Buy)	
Target Price:	€8.50 (€7.50)
Reuters Code:	MBBG.DE
Bloomberg Ticker:	MBB GR
EPS adj.	
Dec 2008A	€1.28 (1.35)
Dec 2009E	€0.54 (0.99)
Dec 2010E	€0.37 (1.39)
Dec 2011E	€0.61
WestLB Research estimates	
Market Cap:	€ 48m

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

Research analyst(s)

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MBB Industries AG

More cash – less earnings – Reimelt-Henschel deal is transformational

- MBB Industries Q2 09 results were characterized by the divestment of Reimelt-Henschel with respect to earnings, cash flow and the balance sheet. Q2 09 operating earnings were positive due to the booking of a €3m exit gain for Reimelt-Henschel, which yielded a €16.4m net cash inflow. In our view Reimelt-Henschel was a transformational deal for MBB Industries. Reimelt-Henschel was the 1st large scale transaction of MBB Industries since its IPO and the successful exit transformed MBB Industries' balance sheet. We estimate that MBB Industries acquired Reimelt-Henschel at about €5m (including Guth Engineering) only 2 years ago. The equity ratio jumped q-o-q from 39% to 53% q-o-q and net debt of €5.3m in Q4 08 turned into a net cash position of €13.4m at the end of Q2 09 making MBB Industries a financially very strong German Mittelstand investor, which merits a valuation premium. Due to a lack of direct comparables in the German market for Mittelstand investors, we base our valuation on a sum-of-the-parts valuation yielding a fair value of €8 per share. We expect MBB Industries to benefit from its cash rich and well capitalized balance sheet and to attract more investments. The successful divestment of Reimelt-Henschel did not only validate the MBB business model, but the company has gained in competitiveness against highly geared private equity competitors. However, given the still weak economic environment we also expect MBB Industries management to follow a more than ever prudent investment stance limiting potential for larger investments in the short term. Following the strong share price performance and given the lack of near-term catalysts, we downgrade to ADD from BUY with significantly lower earnings and significantly higher net cash estimates.

MBB Industries AG forecasts and multiples

Year End	Sales	EBITDA	EPS adj.	P/E	EV/EBITDA	Yield
Dec	(€m)	(€m)	(€)	(x)	(x)	(%)
2008A	199	20	1.28	3.8	1.9	5.1
2009E	120	9	0.54	13.4	3.8	2.7
2010E	90	8	0.37	19.7	4.4	2.7
2011E	98	10	0.61	11.9	3.4	2.7
Net cash/Share	€2.1					
NAV/Share	€6.1					

Source MBB Industries AG, WestLB Research estimates

Net cash and NAV per share at end of current year; ratios for past years are based on historic year-end prices

Q2 09 results review

Q2 09 earnings were largely in line with our expectations with net profit of €1.9m versus our expectation of €1.8m. EBIT of €2.3m remained in positive territory only due to a €3m exit gain booked with the sale of Reimelt-Henschel. We believe that Delignit was the key driver behind the low profitability in the quarter similar

to Q1 09 as the company is highly exposed to the automotive industry. Based on the positive operating and net result in H1 09 MBB Industries expects significantly positive earnings in 2009 on sales of about €120m versus its previous guidance of sales in the range of €120m to €130m without commitment to profitability. We view this statement as positive and driven by the exit gain linked to the sale of Reimelt-Henschel combined with a higher confidence that MBB's diversification is a good hedge against the current sluggish economy.

Summary of Q2 09 headline results review

(€m)	Q2 09A	Q2 09E	+/- e/a (€m)	+/- e/a (in %)	% y-o-y	FY2009
sales	33.0	34.2	-1.2	-3%	-72%	117.8
EBIT	2.3	2.8	-0.5	-16%	-62%	6.2
net profit	1.9	1.8	0.1	7%	-34%	2.9
EPS (€)	0.29	0.28	0.01	4%	-35%	0.44

Source MBB Industries, WestLB Research estimates

The sale of Reimelt-Henschel transformed MBB Industries into a cash rich and well capitalized firm. That is the outstanding feature of the Q2 09 results. We highlight that MBB Industries also stopped the operational cash burn seen in Q1 09 despite continued build up of net working capital boding well for full year operative cash generation.

■ Model changes.

MBB Industries changes rather dramatically in our view following the divestment of its largest holding. In a nutshell, we prefer to see a company with less earnings power and a strong balance sheet than one with stronger earnings power and a much weaker balance sheet. MBB Industries deconsolidated €23m of net assets and generated gross proceeds of €26m, which led to an exit gain of €3m.

The key earnings driver exits the company leading to a drastic reduction of our EPS estimates of between 45% and 74% for FY2009 until FY2011. Our earnings model assumes a swing from losses of €2m on the EBIT-level in FY2009 to €1.8m profits in FY2010 for Delignit, which will be the key swing factor in the results. The remaining affiliates OBO, Hanke, Huchtemeier and DTS are not forecast to generate losses in neither FY2009 nor in FY2010, for which we assume a modest economic recovery.

Our balance sheet estimates assume that MBB Industries will keep an equity ratio above 50% for the entire forecasting period with net cash levels remaining at levels of €14m. As a mirror image to the improvements of MBB Industries's balance sheet as well as the higher number of available investment candidates, we view MBB Industries in a very favourable position to invest over the upcoming 12 to 18 months. In any case, the company has gained in competitiveness against private equity peers with highly geared balance sheets.

Summary of headline model changes

(€m)	2009e			2010e			2011e		
	new	old	delta	new	old	delta	new	old	delta
sales	120.3	191.1	-37%	90.2	190.1	-53%	98.0	197.7	-50%
EBIT	5.5	9.7	-44%	4.3	13.2	-68%	6.3	14.9	-58%
EPS	0.54	0.99	-45%	0.37	1.40	-74%	0.61	1.56	-61%
net cash (-) / net debt (+)	-14.0	3.6	n/a	-13.2	-2.6	415%	-13.3	-2.5	429%

Source WestLB Research estimates

■ Valuation.

We value MBB's current business portfolio and balance sheet with €8.15 per share. Given our belief that MBB Industries is more likely to make attractive investments due to the balance sheet improvements and the less competitive private equity environment, we attach a valuation premium for future value creative projects. Our target price of €8.5 stands at a 5% premium to MBB's 'going concern' fair value and yields 16% upside from Friday's close. In line with our recommendation policy, we reduce our rating from BUY to ADD.

Sum-of-the-parts valuation of MBB Industries

Division	value 2010e	value 2011e	multiple 2010e	multiple 2011e	base	Implied EV 2009 (in €m)	Implied EV 2010 (in €m)	peer group
Technical applications (TA)						7.500	7.500	MV of 80.5% stake in Delignit
Industrial production (IP)	2.144	2.659	12.2	8.8	EBIT	26.181	23.494	German industrial goods and services
Trading and services (T&S)	1.924	2.929	7.3	5.9	EBIT	14.089	17.214	German IT services & trading peers
Consolidation	-1.600	-1.600	5.0	4.8	EBIT	-8.000	-7.680	
EV SOP						39.770	40.527	
(+) Net cash/(-) net debt (€m)						14.008	13.184	
Equity value (€m)						53.777	53.711	
No. Shares outstanding (m)						6.60	6.60	
SOTP per MBB share (€)						8.15	8.14	

Source WestLB Research estimates

German industrial goods and services peer group

company name	PER 10	PER 11	EV/EBIT 10	EV/EBIT 11	EV/SALES 10	EV/SALES 11	closing price	Reuters code
Deutz AG	57.9	14.2	25.1	10.3	0.51	0.47	3.54	DEZG.DE
Heidelberger Druck	-7.3	-90.2	32.7	11.4	0.48	0.46	6.05	HDDG.DE
Krones AG	26.4	14.6	17.1	10.2	0.52	0.49	32.38	KRNG.DE
KUKA AG	143.2	17.8	27.5	10.0	0.37	0.32	11.33	IWVG.DE
Rheinmetall AG	11.4	8.1	6.8	4.9	0.40	0.34	33.77	RHMG.DE
Vossloh AG	12.1	11.8	8.2	7.7	0.92	0.86	84.14	VOSG.DE
Gildemeister AG	20.2	13.4	10.0	8.5	0.38	0.37	8.69	GILG.DE
Jungheinrich AG	28.4	12.0	20.0	8.8	0.30	0.28	13.08	JUNG_p.DE
Rational AG	18.2	16.3	12.2	10.7	2.95	2.80	92.00	RAAT.DE
Technotrans AG	14.0	8.5	9.6	6.2	0.53	0.47	6.08	TTRGn.DE
GEA Group AG	12.9	10.3	8.1	6.6	0.59	0.53	12.39	G1AG.DE

Source ExcelConnect, WestLB Research estimates

German IT services and trading peer group

company name	PER 10	PER 11	EV/EBIT 10	EV/EBIT 11	EV/SALES 10	EV/SALES 11	closing price (US\$)	Reuters code
Bechtle AG	11.6	10.5	6.5	5.3	0.20	0.18	23.66	BC8G.DE
Computacenter	11.1	10.1	7.8	7.0	0.17	0.16	4.37	CCCL
InVision Software AG	19.0	7.4	9.2	2.1	0.32	0.23	10.14	IVXG.DE
Itelligence AG			6.2		0.37		6.25	ILHG.DE
Mensch & Maschine Soft	10.5	9.7	7.3	5.8	0.30	0.26	5.24	MUMG.DE
PC Ware Inform Technologies AG	17.5	15.2	6.8	6.0	0.11	0.11	23.63	PCWG.DE
S & T (System Integration)	14.6	6.0	11.7	6.3	0.21	0.19	16.93	SNTS.DE

Source ExcelConnect, WestLB Research estimates

Divisional estimates and group P&L

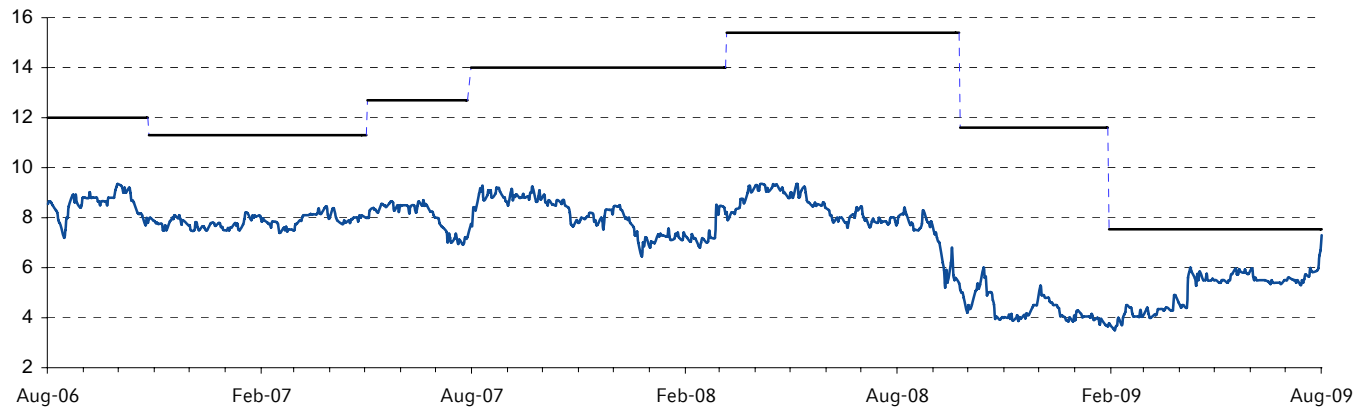
(in €m)	FY2007	FY2008	FY2009	FY2010	FY2011
Divisional SALES					
Technical applications (TA)	72.483	143.100	61.000	26.000	28.600
Delignit		38.700	26.000	26.000	28.600
Reimelt Henschel		104.400	35.000	0.000	0.000
Industrial production (IP)	27.721	27.300	24.685	25.777	28.300
OBO		8.800	7.480	8.228	9.874
Hanke		18.500	17.205	17.549	18.427
Trading and services (T&S)	13.435	28.900	36.143	38.466	41.160
Huchtemeier	13.435	18.100	16.143	16.466	16.960
DTS		10.800	20.000	22.000	24.200
Consolidation	0.009	-0.025	-1.500	-0.025	-0.025
MBB group	113.648	199.275	120.328	90.218	98.035
Divisional EBIT					
Technical applications (TA)	6.979	12.320	4.118	1.800	2.288
Delignit		2.800	-2.000	1.800	2.288
Reimelt Henschel		9.520	6.118		
Industrial production (IP)	2.731	1.872	1.950	2.144	2.659
OBO		0.616	0.574	0.741	1.185
Hanke		1.256	1.376	1.404	1.474
Trading and services (T&S)	-1.443	1.816	1.700	1.924	2.929
Huchtemeier	-1.443	0.400	0.500	0.494	0.509
DTS		1.416	1.200	1.430	2.420
consolidation	6.101	-1.635	-2.300	-1.600	-1.600
MBB group	14.368	14.373	5.468	4.268	6.276
Group P&L					
(in €m)	FY2007	FY2008	FY2009	FY2010	FY2011
sales	113.648	199.346	120.328	90.218	98.035
(% y-o-y)		75.4%	-39.6%	-25.0%	8.7%
delta finished goods & work in progress	-0.97	1.29	1.24	1.58	1.76
own work capitalized	0.00	0.00	0.00	0.00	0.00
other operating income	17.24	8.47	8.53	5.40	4.89
operating income	129.93	209.10	130.09	97.20	104.68
cost of goods sold	-66.28	-123.02	-68.59	-51.88	-55.39
gross profit	63.65	86.08	61.51	45.32	49.29
(in % of sales)	40.8%	38.9%	44.0%	44.3%	45.3%
personnel expenses	-27.60	-47.67	-36.10	-25.71	-27.45
depreciation & amortization	-6.92	-5.13	-3.61	-3.61	-4.12
other operating expenses	-14.79	-18.87	-16.85	-12.18	-12.25
non operating expenses	0.03	0.03	0.08	0.00	0.35
EBIT	14.30	14.37	5.47	4.27	6.28
(in % of sales)	12.6%	7.2%	4.5%	4.7%	6.4%
income from investments	0.00	0.00	0.00	0.00	0.00
interest income	-1.55	-2.65	-1.06	-1.00	-1.00
extraordinary income	0.00	0.00	0.00	0.00	0.00
PBT	13.23	12.18	4.41	3.27	5.28
Income taxes	0.85	-3.39	-0.79	-0.65	-1.06
deferred taxes	0.00	0.00	0.00	0.00	0.00
other taxes	-0.11	-0.28	-0.10	-0.10	-0.10
NET PROFIT	13.97	8.52	3.52	2.51	4.12
minorities	0.07	-0.10	0.07	-0.07	-0.07
NET PROFIT after minorities	14.04	8.42	3.59	2.45	4.05
(in % of sales)	12.4%	4.2%	3.0%	2.7%	4.1%
# of shares outstanding	6.60	6.60	6.60	6.60	6.60
EPS	2.13	1.28	0.54	0.37	0.61

Source MBB Industries, WestLB Research estimates

Wolfgang Fickus, CFA

31 August 2009

MBB Industries AG MBBG.DE



Date	Price	Changed to...	Date	Price	Changed to...	Date	Price	Changed to...
31-Aug-09	7.30	Add						

Coverage History

Rating at 28/08/2006 was Buy
 Change of analyst as of 19 Sept 2006
 Initiation of coverage as of 30 June 2006

Source FactSet/JCF, WestLB Research

Since 30/1/2009 the rating Hold is replaced by Neutral. When the rating is Neutral the target price is equal to the actual share price.

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Buy/Add	65	34	Buy/Add	20	47
Neutral	78	41	Neutral	21	49
Sell/Reduce	47	25	Sell/Reduce	2	5

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Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political and social conditions. This discussion of valuation methods and risk factors is not comprehensive. Further information is available upon request.

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Within that overall framework, a Buy rating means that the total return from the stock is expected to exceed 20%; Add means between 10% and 20%, Reduce means between 0% and minus 10%; Sell means the stock is expected to return less than minus 10%; a Neutral rating means that we believe the share is fairly valued at current share price levels. For this reason we do not specifically provide a numeric target price for this rating, as by definition this corresponds closely to the market price that is determined on a daily basis until such time that we change our rating.

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