

Machinery

Dürr

- Company update -

Closing price: €30.48

(09 August 2007)

- ◆ *Dürr largely met our 2Q07 estimates despite adverse effects of €8m on the EBIT level. The company reiterated its FY07F outlook and FY08F targets. Order intake continues to be strong.*
- ◆ *We believe underlying profitability has further improved in the quarter.*
- ◆ *We stick to our Strong Buy rating. Our target price has decreased from €38.00 to €35.50 based on a weaker peer valuation.*

Despite headwinds of €8m on an EBIT level, Dürr delivered 2Q07 earnings which were in line with our estimates. EBIT was €8m in 2Q07 versus our estimate of €9m. Management reiterated its outlook of a FY07F EBIT in the range of €50-55m, while we remain a bit more upbeat with our €57m forecast. Order intake in 2Q07 was still strong with a level of around €400m. Thus order backlog increased further, which gives the company good visibility for the remainder of the year.

Paint & Assembly Systems came in below our estimate as the segment was burdened by €6m due to headwinds in India, which we will examine in detail later, and an another €6m from the working-off of low margin projects. Thus, underlying profitability is quite strong in our view.

Measuring & Process Systems profited from a gain of €4m from the sale of a Chinese joint venture and some other assets. Even factoring this out, both subdivisions should have shown a good improvement.

The CEO confirmed that Dürr sees itself in the position to acquire more than half of the €1bn worth of announced projects in the market. Thus, in our view, order intake should stay strong. From the large projects in the US, Dürr is very confident to acquire at least one of the remaining two. However, as focus is on margin, the option to decline both assignments is still left on the table.

We stick to our Strong Buy recommendation. Headwinds from India merely led to a shift of earnings improvement into 4Q07F. Our target price is based on a key ratio comparison versus our engineering universe and KUKA. Due to the latest weakness in markets, our target price declines from €38.00 to €35.50.

Strong Buy

Previously: Strong Buy

Target price: €35.50

Share price performance



Source: Datastream, BHF-BANK

Key ratios	2006	2007F	2008F
Sales (€m)	1,361	1,480	1,554
Sales YoY (%)	-2.8	8.7	5.0
EBIT (€m)	33	57	83
Net income (€m)	7	28	44
Adj. EPS (€)	0.49	1.77	2.77
EV/Sales	0.4	0.4	0.4
EV/EBITDA	9.6	8.3	5.8
PER	42.0	17.2	11.0

Source: Company data, BHF-BANK estimates

Share data

Reuters Code	DUEG.DE
Index	SDAX
Price (€)	30.48
High / Low (€)	34.00 / 18.75
Free float (%)	40
Market cap (€m)	479

Source: Datastream, BHF-BANK

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On track despite Indian headwinds

Fig 1 Segment development

(€m)	1Q06	2Q06	3Q06	4Q06	FY06	1Q07	2Q07	3Q07F	4Q07F	FY07F	YoY	FY08F	YoY
Paint & Assembly Systems													
Sales	244	254	295	296	1089	245	268	323.4	347	1183	8.6%	1240	4.8%
EBIT	3.0	8.0	10.0	9.0	30.0	3.5	2.9	9.6	25.0	41.0	36.7%	60.3	47.1%
EBIT margin	1.2%	3.1%	3.4%	3.0%	2.8%	1.4%	1.1%	3.0%	7.2%	3.5%	-	4.9%	-
Measuring & Process Systems													
Sales	65	63	63	91	282	59.5	77.5	65	103	302	7.1%	319	5.6%
EBIT	-2.7	-1.7	-2.4	11.4	4.6	-0.2	4.7	2.0	11.4	17.9	289.1%	24.0	34.1%
EBIT margin	-4.2%	-2.7%	-3.8%	12.5%	1.6%	-0.3%	6.1%	3.1%	11.1%	5.9%	-	7.5%	-
Group													
Sales	309	317	358	377	1361	304	346	386	438	1480	8.7%	1554	5.0%
EBIT	-1.6	7.2	9.6	20.7	33.1	3.3	8.0	10.8	35.0	57.1	72.3%	83.3	46.0%
EBIT margin	-0.5%	2.3%	2.7%	5.5%	2.4%	1.1%	2.3%	2.8%	8.0%	3.9%	-	5.4%	-

Source: Company data, BHF-BANK estimates

India has been a fast growing market. Order intake for Dürr rose from €16m in FY05 to €110m in FY06. For FY07F the company expects an order intake of €140m. This development is not confined to Dürr but resembles the vast investments from OEMs in the country. This growth has put constraints to the supplier basis in the country but also led to some management problems. As a consequence, Dürr has exchanged the responsible management director, increased its engineering capacity by allocating human resources from Germany and Korea to the country and decreased the share of local sourcing. Dürr also widens and restructures its local supplier base, as it did in China, which was in a similar situation before. We expect that Dürr will be successful with these introduced measures. 3Q07F should still see some negative effects which moves the bulk of the earnings expected for FY07F into 4Q07F.

We think underlying profitability of the company has improved further. Service revenues stood at 26.5% of sales in 1H07 after 25.2% in 1Q07F. Moving from FY05 to FY06, the share had been increased from 20% to 26%. Dürr targets the level of 30% and we feel it is on track to reach this goal. The three turnaround candidates, Cleaning & Filtration, Final Assembly Systems and the US business, also have improved. Cleaning & Filtration sees good demand for the new products and has managed to break even in 1H07. Final Assembly Systems should have had a good order intake in 1H07 as demand for its FASTplant product is strong. We believe that the margins from the 1H07 order intake show significant improvement and that the turnaround will be achieved. The US business is also on track. Downsizing was successful and current orders are mostly modernisation and refitting orders which also show good profitability. In May three large orders, each with a volume of €50-100m, were in the US market. The Chrysler order was given to a new local competitor. From the two projects left, BMW and KIA, Dürr is very sure to acquire at least one. However, as management wants to be selective and concentrates on the available margin of the projects, it even leaves the option on the table to decline both of them, sticking to the downsized business and the lower-level turnover.

While a one-off due to the German corporate tax reform will likely take place in 3Q07, Dürr expects for FY07F a tax rate of only 25%, which is unusually low. For FY08F a normalisation will take place, with the result of a rising tax rate, despite the reform. The company expects for FY08F a tax rate of around 30% with a tendency towards a lower level.

In our view, the fundamental outlook is unchanged, thus we continue to rate the stock a Strong Buy.

Notes on equity research products

Our recommendations and the corresponding target prices are based on a six-month forecast period unless stated otherwise in the report.

Share prices used in our reports are closing prices of the day before publication unless a different date is stated.

We will update our research products in accordance with the performance of the equity market and/or following press conferences on annual results, interim reports, ad hoc statements of the companies.

Publications of the last 12 months:

	Date	Recommendation		Date	Recommendation
Preview	01/08/2007	Strong Buy			
Update	20/06/2007	Strong Buy			
Update	10/05/2007	Strong Buy			
Preview	03/05/2007	Strong Buy			
Report	20/04/2007	Strong Buy			

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