

## Capital Goods - Engineering

## Dürr

- Company update -

## Strong Buy

Previously: Strong Buy

Target price: €34.50

**Closing price: €29.25**

(15 November 2007)

- ◆ *Dürr posted solid 3Q07F numbers despite ongoing burdens from India. FY07F guidance for order intake has been increased. FY07F EBIT margin target still stands at 3.5%.*
- ◆ *For FY08F the company indicated a sales increase above 5%. Current order backlog is said to have a good profitability.*
- ◆ *We stick to our Strong Buy rating. Our target price moves from €35.50 to €34.50.*

In our view, 3Q07 figures were quite solid. Our sales estimates were met and our EBIT expectations surpassed. However, this was not due to exceeding profits in the two major operating divisions but because the corporate line showed a positive EBIT of €4.2m in 3Q07, while being roughly flat in 1H07. Order intake was very strong, increasing 25% in 3Q07. As a result FY07F guidance for order intake was increased from being at least flat to an increase of more than 10%. Next to the already good basis at 9M07, Dürr expects a major order from BMW (US Spartanburg) in the next few weeks. Despite the already strong order intake, management indicated that the orders available in the market have risen further in 3Q07, thus still above €1.0bn.

Due to the good order situation, FY08F sales are seen to rise more than 5%, which was the previous indication. New orders have an increased profitability, so the company reiterated its FY08F EBIT margin forecast of 5%. FY07F is seen at 3.5%. India has burdened 3Q07 by around €5m, after €6m in 2Q07. This was above our expectations. As Final Assembly Systems has difficulties to break even, we have to reduce our estimates for FY07F in the Paint and Assembly Systems division. This is partially offset by stronger earnings in Measuring and Process Systems and in the Corporate line.

The company outlook for FY08F remains strong. The difficulties in India have been dealt with and no negative effects are to be expected in 4Q07F from that side. In 1Q08F Dürr will show the details of the Dürr2010 programme, which will illustrate its further strategic development. Key points of Dürr2010 will be the improvement of profitability and growth in combination with financial discipline. Due to these strong prospects we stick to our Strong Buy recommendation. We have slightly reduced our target price from €35.50 to €34.50 on a lower peer valuation.

## Share price performance



Source: Datastream, BHF-BANK

Key ratios	2007F	2008F	2009F
Sales (€m)	1,485	1,582	1,661
Sales YoY (%)	9.1	6.5	5.0
EBIT (€m)	54	82	93
Net income (€m)	18	43	53
Adj. EPS (€)	1.16	2.73	3.38
EV/Sales	0.4	0.4	0.3
EV/EBITDA	8.5	5.8	4.9
PER	25.1	10.7	8.7

Source: Company data, BHF-BANK estimates

## Share data

Reuters Code	DUEG.DE
Index	SDAX
Price (€)	29.25
High / Low (€)	34.70 / 20.20
Free float (%)	40
Market cap (€m)	460

Source: Datastream, BHF-BANK

**S. Augustin, Financial Analyst**

Phone: +49 69 718-2674

E-mail: stefan.augustin@bhf-bank.com

## Order intake and business conditions remain strong

Fig 1 Dürr – segment development

(€m)	1Q06	2Q06	3Q06	4Q06	FY06	1Q07	2Q07	3Q07	4Q07F	FY07F	YoY	FY08F	YoY
<b>Paint &amp; Assembly Systems</b>													
Sales	244	254	295	296	1089	245	268	282	385	1180	8.4%	1249	5.8%
EBIT	3.0	8.0	10.0	9.0	30.0	3.5	2.9	6.8	18.8	32.0	6.7%	55.3	72.8%
EBIT margin	1.2%	3.1%	3.4%	3.0%	2.8%	1.4%	1.1%	2.4%	4.9%	2.7%		4.4%	
<b>Measuring &amp; Process Systems</b>													
Sales	65	63	63	91	282	59.5	77.5	83.4	90	310	9.9%	338	9.0%
EBIT	-2.7	-1.7	-2.4	11.4	4.6	-0.2	4.7	5.0	8.5	18.0	291.3%	27.0	50.0%
EBIT margin	-4.2%	-2.7%	-3.8%	12.5%	1.6%	-0.3%	6.1%	6.0%	9.5%	5.8%		8.0%	
<b>Group</b>													
Sales	309	317	358	377	1361	304	346	363	466	1485	9.1%	1582	6.5%
EBIT	-1.6	7.2	9.6	20.7	33.1	3.3	8.0	16.0	26.2	53.5	61.6%	82.4	54.0%
EBIT margin	-0.5%	2.3%	2.7%	5.5%	2.4%	1.1%	2.3%	4.4%	5.6%	3.6%		5.2%	

Source: Company data, BHF-BANK estimates

Paint and Assembly Systems showed a lower profit than we had expected. 3Q07 EBIT was burdened by around €5m due to the difficulties in India. While these have been resolved as expected by the end of 3Q07, it was more expensive than planned. 4Q07F will thus show a remarkable improvement. Nevertheless, the company guides the division to have just a small YoY increase in EBIT in FY07F. Next to India was the working-off of low-margin contracts earlier in the year. Moreover, a large portion of the 1H07 order intake was attributable to Final Assembly Systems, which has the lowest margins and shows continuous difficulties in its turnaround. In 3Q07 Paint was also able to generate projects which will be executed in FY08F, thus improving profitability.

Final Assembly Systems is therefore dealt with in the Dürr2010 strategy process. Dürr will focus on the growth businesses such as aircraft assembly systems. Together with EDAG, Dürr got the order for the China Airbus plant but the company wants to expand the business further. The loss-making conveyor business will be repositioned, or as we would say, downsized. Same is with the turnkey assembly business, which has currently an unfavourable risk/reward scheme. We think this is to continue as long as OEMs have different budgets for investment and plant operation. The new FASTplant product, on the other side, has a sufficient contribution margin and very good market acceptance, so Dürr wants to strengthen this part. In our view, the measures will be successful. Dürr has indicated that the repositioning will not lead to one-off costs.

Measuring and Balancing Systems is enjoying a very good business environment and continues to surpass our EBIT assumptions. Cleaning and Filtrations system has to be mentioned, especially as it enjoyed strong order intake and the turnaround is ahead of plan, according to management. Thus, FY07F earnings of the division will probably improve strongly.

Dürr's outlook for FY08F remains strong based on the good order intake and the continuously strong project pipeline in the market. Management looks for an increase in FY08F sales of above 5% now. Its EBIT margin guidance for FY08F is still at 5%. With the new strategic programme, Dürr2010, the company will outline in 1Q08F what measures will be taken to achieve EBIT margins above 5% while generating a sales growth of more than 4% pa. Another focus will be on financial discipline, thus the introduction of a ROCE target. As Dürr executes successfully on the FOCUS programme, we think prospects for the company are still bright. We thus reiterate our Strong Buy recommendation.

## 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	05/11/2007	Strong Buy	Report	20/04/2007	Strong Buy
Update	10/08/2007	Strong Buy			
Preview	01/08/2007	Strong Buy			
Update	20/06/2007	Strong Buy			
Update	10/05/2007	Strong Buy			
Preview	03/05/2007	Strong Buy			

## Research Team

### Klusmann, Jochen

Augustin, Stefan  
Bagriyanik, Tutku  
Jung, Jens  
Loskamp, Tobias  
Machemehl, Nils  
Müller, Clemens  
Raab, Hagen  
Reith, Hermann  
Wunrau, Aleksej

### +49 69 718-4460

+49 69 718-2674  
+49 69 718-2928  
+49 69 718-2417  
+49 69 718-3877  
+49 69 718-4326  
+49 69 718-2919  
+49 69 718-2487  
+49 69 718-2632  
+49 69 718-3388

### jochen.klusmann@bhf-bank.com

stefan.augustin@bhf-bank.com  
tutku.bagriyanik@bhf-bank.com  
jens.jung@bhf-bank.com  
tobias.loskamp@bhf-bank.com  
nils.machemehl@bhf-bank.com  
clemens.mueller@bhf-bank.com  
hagen.raab@bhf-bank.com  
hermann.reith@bhf-bank.com  
aleksej.wunrau@bhf-bank.com

## Sales Team

### Burgold, Erik

Castro, Ann  
Gräser, Katrin  
Julia, Annelise  
Rakic, Biljana

### +49 69 718-3018

+49 69 718-2929  
+49 69 718-3886  
+49 69 718-2911  
+49 69 718-4122

### erik.burgold@bhf-bank.com

ann.castro@bhf-bank.com  
katrin.graeser@bhf-bank.com  
annelise.julia@bhf-bank.com  
biljana.rakic@bhf-bank.com

## Sales Trading

Gerdson, Oliver  
Krämer, Benjamin  
Marquez, Rick

+49 69 718-2872  
+49 69 718 2279  
+49 69 718-4179

oliver.gerdson@bhf-bank.com  
benjamin.kraemer@bhf-bank.com  
rick.marquez@bhf-bank.com



**Bockenheimer Landstraße 10  
60302 Frankfurt am Main  
Germany**

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Supervisory authority: Bundesanstalt für Finanzdienstleistungsaufsicht; Graurheindorfer Str. 108; 53117 Bonn

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