

Capital Goods - Engineering

Dürr

- Company update -

Strong Buy

Previously: Strong Buy

Target price: €34.00

Closing price: €27.97

(28 April 2008)

- ◆ **Dürr posted very strong 1Q08 results.**
- ◆ **Order intake remained on record level. Project pipeline is still strong.**
- ◆ **Strong quarterly results lift confidence that Dürr will be able to reach our forecasts for FY08F. We continue to rate the stock a Strong Buy. Target price improves from €32.00 to €34.00 on the shift to FY09F multiples.**

Dürr posted very strong figures for 1Q08. Sales grew at group level by 17% to €356m. EBIT tripled from €3.1m to €10.4m. Order intake stood at €517m and thus again on a record level. Therefore, the book-to-bill ratio was 1.5x and order backlog increased to €1.2bn versus €1.0bn a year ago. Project pipeline is still strong and new orders from healthy demand now start to fill the book for FY09F. While the outlook statement is unchanged with regard to numbers, management changed the tone and signaled in the conference call that this should express more optimism. For FY08F sales outlook sees an improvement up to 10% and the EBIT margin should be 5%.

Looking at the segments, Paint and Assembly Systems (PAS) improved sales by 18% as orders came in 4% shy. In the US systems orders went down, while orders for Application Technologies and Environmental and Energy Systems gained at a high pace. EBIT margin has improved by 130 basis points to 3.4%. First improvements at the conveyor business can be seen already.

Measuring and Process Systems showed a very favourable development. Sales increased by 15% and orders by 25%. The new products from Cleaning & Filtration showed healthy demand as well as balancing products for power generation. Both subdivisions improved the EBIT margin, which rallied from zero to 2.6%.

Execution and outlook remain strong. 1Q08 figures give us confidence that our FY08F forecasts should be met and now incoming orders support FY09F assumptions. We shift our valuation multiples from FY08F to FY09F. As a result, our target price is lifted by 6% from €32.00 to €34.00. We continue to rate the stock a Strong Buy.

Share price performance



Source: Datastream, BHF-BANK

Key ratios	2007	2008F	2009F
Sales (€m)	1,477	1,612	1,693
Sales YoY (%)	8.5	9.2	5.0
EBIT (€m)	56	86	99
Net income (€m)	22	47	58
EPS (€)	1.33	3.00	3.72
EV/Sales	0.4	0.3	0.3
EV/EBITDA	7.6	4.8	3.9
PER	21.2	9.3	7.5

Source: Company data, BHF-BANK estimates

Share data

Reuters Code	DUEG.DE
Index	SDAX
Price (€)	27.97
High / Low (€)	34.70 / 18.40
Free float (%)	37.9
Market cap (€m)	440

Source: Datastream, BHF-BANK

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Confidence in our FY08F estimates on good performance and record order intake

Fig 1 Segment development

(€m)	1Q07	2Q07	3Q07	4Q07	FY07	YoY	1Q08	2Q08F	3Q08F	4Q08F	FY08F	YoY	FY09F	YoY
Paint & Assembly Systems														
Sales	245	268	282	366	1,161	6.6%	268.8	271	272	370	1,182	1.8%	1,240	4.9%
EBIT	3.5	2.9	6.8	23.4	36.6	24.7%	9.1	9.5	9.9	26.7	55.2	50.8%	62.0	12.4%
EBIT margin	1.4%	1.1%	2.4%	6.4%	3.2%		3.4%	3.5%	3.6%	7.2%	4.7%		5.0%	
Measuring & Process Systems														
Sales	59.5	77.5	83.4	101	322	14.1%	87.4	105	108	130	430	33.7%	456	6.0%
EBIT	-0.2	4.7	5.0	9.9	19.4	322.7%	2.3	7.5	8.0	14.0	31.8	64.1%	36.5	14.7%
EBIT margin	-0.3%	6.1%	6.0%	9.8%	6.0%		2.6%	7.2%	7.4%	10.8%	7.4%		8.0%	
Group														
Sales	304	346	365	462	1,477	8.5%	356.2	376	380	500	1,612	9.2%	1,693	5.0%
EBIT	3.0	8.0	15.9	28.8	55.7	68.1%	10.3	17.1	17.9	40.2	85.5	53.6%	98.5	15.2%
EBIT margin	1.0%	2.3%	4.4%	6.2%	3.8%		2.9%	4.5%	4.7%	8.0%	5.3%		5.8%	

FY07F segments are not adjusted for new reporting structure

Source: Company data, BHF-BANK estimates

Cash flow development has been strong in the quarter, positively influenced by a €50m higher level of advanced payments. Operating cash flow improved from a negative €9m to €21m. As a result, free cash flow stood at €8m. While we had the advance payments on the positive side, Dürr choose a lower factoring level. For FY08F the company wants to reach again €50m free cash flow (on fully comparable basis). Thus the net position should further improve. The high yield bond will be redeemable starting in July 2008. Dürr is able to buy back any volume of the bond at 105,250 on any day until the buy-back price will drop to 102,625 on 15 July 2009. Dürr wants its financial headroom (roughly €250m) to be maintained and improve at the same time interest result, net income and EPS. At current market conditions a buy-back volume of €100m is likely, according to management. A rise in capital of 10% or a convertible is a possibility, according to management. Company calculations indicate a higher EPS after the balance sheet restructuring, even if capital is increased.

Improvement in earnings came from mainly two fronts. First, quality of orders improved. New product lines in Cleaning and Filtration generated good market demand and new products in Application Technology also led to a good response from customers. Management also indicated that the situation at the Conveyor business, which was moved from Factory Assembly Systems into Paint Systems shows an improvement already after the first few weeks. This improvement can be seen in the higher gross margin, which increased by 40 basis points in 1Q08. Secondly, SGA costs grew underproportionally to sales. As sales gained 17%, SGA increased only by 3.5%. For FY08F Dürr sticks to its EBIT margin target of 5% and also expects an improvement in the operating margin.

Looking at the geographical split, 1Q08F showed the revival of orders from China, which gained 147% YoY. According to management, the project pipeline is still strong, also with respect to China. The US business, which boomed in FY07, was lower in the quarter, but end-markets show continued good activity. An order from a possible VW plant would not be expected in FY08F as lead time for such a project is too long, but business in Mexico (e.g. Ford) and high order backlog will keep capacity utilisation high in that region in FY08F.

As outlined in the "Dürr 2010" strategy, the company targets smaller acquisitions and mentioned a possible opportunity for it Balancing and Assembly division. Investment should amount to no more than €10m and would lead to a supplement of the product portfolio. The takeover is unlikely to happen before 3Q08F.

The strong 1Q08 performance and the record order intake lift our confidence in our FY08F forecasts. Net position should improve further, rounding our investment case. We continue to rate the stock a Strong Buy. Target price is derived from a key ratio comparison, now based on FY09F multiples. Based on target EV/sales of 0.49x, EV/EBITDA of 4.9x, EV/EBIT of 6.35x and a PER 9.9 our target price increases from €32.00 to €34.00.

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	25/04/2008	Strong Buy	Update	10/08/2007	Strong Buy
Report	09/04/2008	Strong Buy	Preview	01/08/2007	Strong Buy
Update	25/02/2008	Strong Buy	Update	20/06/2007	Strong Buy
Preview	18/02/2008	Strong Buy	Update	10/05/2007	Strong Buy
Update	16/11/2007	Strong Buy	Preview	03/05/2007	Strong Buy
Preview	05/11/2007	Strong Buy			

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