Schaltbau Holding

H121 results

Bode drives margin recovery

Industrial engineering

Schaltbau Holding reported a strong set of results in H121, with revenue growth of 6% and a 42% increase in EBIT. The margin improvement was driven by the recovery at Bode after years of weak results. With the contribution of new segments such as new energy, new industry and e-mobility, we expect overall revenue growth to accelerate, while cost savings and efficiency efforts will continue to drive higher profitability. We expect a further improvement in the EBIT margin to 7.2% in 2023, reflecting an EBIT CAGR of 27% in 2021–23e.

Year end	Revenue (€m)	EBIT** (€m)	EPS** (€)	DPS (€)	EV/EBITDA (x)	P/E (x)
12/19	491.9*	29.0	1.05	0.00	9.9	32.4
12/20	502.3	26.8	1.47	0.00	9.5	20.3
12/21e	533.0	29.4	1.74	0.00	12.0	23.7
12/22e	570.4	36.7	1.71	0.00	10.0	24.1

Note: *Revenue is like-for-like. **EBIT and EPS are like-for-like and normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Accelerating growth during H121 and higher margins

Revenues rose 6% to €253.3m, driven by good growth in the DC Power business (32% of FY20 revenues). SBRS benefited from high demand in fast-charging solutions for e-mobility and Schaltbau GmbH experienced a recovery from the pandemic and strong demand in its new energy and new industry business. It also won its first nomination as a supplier for a platform of a leading commercial vehicle OEM. Rail (68% of FY20 revenues) showed lower revenues, caused by pandemic-related delays in rolling stock projects at subsidiary Bode. EBIT showed strong growth of 42% to €13.6m, driving a margin improvement of 140bp to 5.4%. As expected, Bode was the main driver of this improvement, showing a recovery of 320bp to 3.4%, fuelled by 18% growth in aftersales (which carry higher EBIT margins), higher shop floor productivity and a reduction in overhead costs.

Guidance for FY21 maintained

Schaltbau Holding maintained its guidance for FY21: revenues of €520–540m (or growth of 5.5% at the midpoint) and the reported EBIT margin improving to c 5%. We have raised our estimates after the strong H121 results and now assume revenue growth of 6.0% (was 5.7%) and an EBIT margin of 5.5% (was 5.4%). Targeted long-term revenue growth in Rail is 4–6% per year and higher growth should come from the DC Power business, partly from the new product segments. We expect revenue growth to accelerate after 2021 and EBIT margin to improve to 7.2% in 2023 (driven by revenue growth, operating leverage and efficiency gains).

Valuation: Higher estimates point at higher value

On our increased estimates and adjusted valuation parameters (based on the strong margin recovery), all three of our valuation methods point to higher values. We currently value Schaltbau at €45 per share (previously €41), which is the average of historical multiple-based valuation (€46), DCF (€43) and peer comparison (€45).

6 August 2021

Price	**€41.25**
Market cap	**€396m**

Net debt (€m) at 30 June 2021	32
Shares in issue	9.6m
Free float	39%
Code	SLT
Primary exchange	Frankfurt (Prime Standard)
Secondary exchange	Munich

Share price performance

%	1m	3m	12m
Abs	8.1	17.6	49.3
Rel (local)	7.5	13.4	20
52-week high/low		€40.70	€23.40

Business description

Schaltbau Holding specialises in products for rail infrastructure and rolling stock as well as road vehicles and other industrial applications. Rail represents 68% of FY20 revenues. The geographical spread of revenues in FY20 is Germany 36%, other Europe 47% and rest of the world 17%.

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Edison profile page

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H121 results: Bode on track for strong margin recovery

Schaltbau Holding reported a strong set of results in H121, with revenue growth of 6%, better than the reported 4% in Q121. The company still reports according to the split in brands: Pintsch (rail infrastructure), Bode (rail and bus entrance systems), Schaltbau GmbH (DC components for rail and new energy, new industry and e-mobility) and SBRS (partly rail refurbishment and partly fast charging for e-mobility). The company is considering a change to reporting only two segments, ie Rail and DC Power, but will only start to publish on this basis from FY22. Rail comprises Pintsch, Bode and part of SBRS, and DC Power comprises Schaltbau GmbH and part of SBRS.

Revenue growth in H121 was driven by the DC Power segment (32% of FY20 revenues). Schaltbau GmbH is recovering from the impact of coronavirus last year and reported 12% growth in H121 after 7% growth in Q121. This segment has the shortest lead time in orders and therefore is the quickest to react to changes in economic conditions. Growth was driven by a 36% increase in the still relatively small segments of new energy (eg solar and wind) and new industry (eg forklifts and industrial trucks), but rail components are also recovering from the pandemic with 8% revenue growth. The SBRS segment continued its strong growth with revenues up 77% to €20.8m, fuelled by high demand for charging infrastructure in e-mobility.

Rail (68% of FY20 revenues) showed a decline in revenues, although this was partly the result of the phasing out of legacy projects at Bode. Pintsch reported flat revenues in H121 with good growth in level crossings. The performance was impacted by one-off revenues of €0.9m in Q120 related to the terminated PSD project in Brazil. The second half of the year is always stronger for Pintsch and management expects a strong Q4, based on a well-filled order book. The pilot project for digital interlocking systems in Germany is on track, which bodes well for revenue growth in the next few years. The Bode segment reported a decline in revenues of 3%, in line with the decline in Q121. Order intake was lower, partly due to phasing out a major OEM in the bus segment. Bode also experienced pandemic-related delays in rolling stock orders, particularly in the United States and the UK, which was partly offset by strong growth of 18% in aftersales.

Exhibit 1: Schaltbau Holding H121 results

€m	H120	H121	% change
Pintsch (Rail)	34.8	34.6	0%
Bode (Rail, including Bus)	124.7	121.4	-3%
Schaltbau GmbH (DC Components, also Rail related)	68.1	76.4	12%
SBRS (partly Rail and partly DC Components)	11.8	20.8	77%
Total revenues	239.3	253.3	6%
Pintsch	2.1	0.8	-61%
Bode	0.2	4.1	1960%
Schaltbau GmbH	11.9	12.7	7%
SBRS	1.3	1.3	2%
Other	(5.9)	(5.3)	-10%
Total EBIT	9.6	13.6	42%
Pintsch	6.1%	2.4%	
Bode	0.2%	3.4%	
Schaltbau GmbH	17.3%	16.4%	
SBRS	10.5%	6.0%	
Total EBIT margin	4.0%	5.4%	
Financial expenses	(3.2)	(2.6)	-19%
Pre-tax profit (before results from investments)	6.4	11.0	72%
Taxes	(3.0)	2.0	-168%
Group profit (including results from investments)	4.0	13.2	226%
Minorities	(1.5)	(1.7)	
Net profit attributable to shareholders	2.5	11.5	351%
EPS reported (€)	0.29	1.24	333%

Source: Schaltbau Holding

EBIT showed strong growth of 42% to €13.6m, which is mainly driven by the margin recovery at Bode (50% of revenues). Bode reported a 320bp higher margin of 3.4% (Q121 margin was 3.5%), driven by a strong increase in aftersales (which carry higher EBIT margins), higher shop floor productivity and a decline in overhead costs. Schaltbau GmbH reported a 90bp decline in EBIT margin, but this was completely due to the one-off effect in Q220 of €0.9m (or 130bp) from first-time consolidation of the subsidiary in India. Underlying margin was 40bp higher, driven by operating leverage. Pintsch reported a drop of 370bp in EBIT margin, but this was affected by a positive one-off effect in Q120 of €0.9m related to the terminated PSD project in Brazil. Underlying margin declined 110bp in the traditionally weaker first half of the year. SBRS reported a decline in EBIT margin of 450bp, but this was partly due to a negative accounting effect of €0.7m related to a write-down of receivables for a legacy project in Q121. Adjusted for this, SBRS's margin would have been above 10% in Q121 followed by a margin of 8.7% in Q221. For the second half, management expects a reported margin for SBRS of around 6%, in line with the reported margin in the first half.

Growth in net profit was much stronger than growth in EBIT, mainly due to the recognition of deferred tax assets on tax losses and interest amounts available for carry forward in Germany, resulting in a tax benefit of €2m in H121.

Net debt declined significantly in the first half to €32m, mainly due to the net proceeds of €57.3m from the mandatory convertible bond, which was issued late April 2021 (the bulk of proceeds were accounted for as "payment into capital"). Net debt/EBITDA declined to 0.7x from 1.9x at year-end FY20. About 50–60% of the net proceeds will be used for financing the new plant NExT in Germany, about 15–20% for add-on acquisitions and 25–30% has been used for debt reduction. The groundwork of the new plant is completed, shell building is under construction and the NExT DC grid project has started. The plant should be operational in autumn 2022. The convertible bond will mature on 30 September 2022 and mandatory conversion at €29 per share will increase the number of shares outstanding by 2.1m to 10.9m (+23%). As at 30 June 2021, bondholders have already converted a volume of €21.4m, increasing the total number of shares outstanding by 0.7m to 9.6m.

Cash outflows from investing activities in H121 increased to €8.2m (€6.6m in H120), due to investments in the new factory. Cash inflows from operating activities were €5.9m in H121 (€3.8m in H120). We expect free cash flow to be positive in 2021 and around break-even in 2022, after which it is forecast to turn strongly positive. We expect an improvement in free cash flow to €35m in 2023. The equity ratio was 23% in Q121, but increased to 38% in H121 as a result of the proceeds of the convertible bond.

Outlook: Order intake improving

Overall order intake increased 3% y-o-y to €279.5m and showed strong recovery in the second quarter (+12%) after the decline of 5% in the first quarter. Despite this improvement, Schaltbau stated that COVID-19 continues to have an impact on its supply chains and is causing project delays in some segments. Growth in order intake is particularly driven by Schaltbau GmbH (+14%), Pintsch (+18%) and SBRS (+11%). Schaltbau GmbH is benefiting from strong demand in the relatively new segments of new energy and new industry with 49% growth in order intake to €15.9m, while rail is recovering from the pandemic. Schaltbau GmbH also announced its first nomination as a supplier for a platform of a leading commercial vehicle OEM, with first production expected in 2023. The sales funnel for e-mobility solutions is still well filled according to management. Pintsch is benefiting from higher order volumes in level crossing technology. SBRS is benefiting from continued strong order intake in the e-mobility fast-charging business. Bode reported 8% lower order intake in H121, but the second quarter showed a more positive order intake of +8%, driven by orders in rail, while orders in the bus segment declined due to phasing out a major OEM customer.

After the solid performance in the first half, Schaltbau Holding has maintained its FY21 guidance of revenues of €520–540m (+5.5% at the midpoint) and reported EBIT margin of around 5%, up from 4.3% last year. The FY20 EBIT margin was affected by a one-off charge of €5m, or a 100bp margin effect, and we therefore believe that FY21 margin guidance might be too conservative given the improvement shown in the first half and the underlying starting point of 5.3% (ie excluding the €5m one-off charge). On the H121 analyst call on 28 July, management commented that it is comfortable with its guidance. We believe there is upside potential to the margin guidance, but management prefers to be cautious given the uncertain impact of the scarcity of raw materials and corresponding higher input prices.

Schaltbau Holding also announced the acquisition of Wolber Antriebstechnik, a supplier of components for rail signalling technology (point machines), which complements Pintsch's portfolio. Wolber has annual revenues of around €2m with a low double-digit EBIT margin.

On 5 August 2021, Schaltbau Holding announced to have signed a new syndicated credit agreement for €150m, which the company will utilise to repay the existing agreement of €172m. The term is for three years with options to extend for up to two years. According to the company, conditions are substantially better and without major restrictions on the use of the funds, as a result of the strong improvement in operational performance. For the first time, this credit agreement includes an ESG component, based on which the company can reduce the cost of the credit by achieving predefined targets.

We have raised our estimates slightly after the strong set of results in H121. For 2021–23, our estimates assume a CAGR of 27% in reported EBIT and 18% in normalised EBIT. The CAGR in normalised net profit is 23% but, due to the dilution of the mandatory convertible bond, the CAGR in normalised fully diluted EPS is 14% for 2021–23e.

Exhibit 2: Schaltbau strategic pillars

	Key mid-term strategic directions	Key strategic targets by 2026
01	Sustainable **performance improvement** (profitability, return on capital, and cash generation)	Group: high single-digit EBIT margin Group: mid-teens ROCE Rolling Stock (Bode): EBIT margin 6-8%
02	**Profitable growth in the core business:** Rail Infrastructure and Rolling Stock/Bus	Rail revenue CAGR 4-6% from 2020 to 2026 (>2x market-growth[1])
03	**Growing the After Sales business,** utilizing the installed base and growth in modernizations/refurbishments	After Sales revenue CAGR 6-7% from 2020 to 2026 (from ~€60 M 2020 to ~ €100 M in 2026
04	**Development of new DC components and applications in New Energy / New Industry, and e-Mobility,** entering high-growth markets	Doubling DC Power revenues by 2026 (from ~€160 M in 2020 to ~€300 M in 2026)

Source: Schaltbau Holding

Schaltbau management remains committed to its goals for 2026 (see Exhibit 2 for the strategic pillars): revenues of €750–800m (CAGR of 7–8%) and a high single-digit EBIT margin aimed at outperforming the 6–8% range realised by its selected peer group. The main driver of margin improvement is the expected margin recovery at Bode, which has shown weak profitability over the past few years (due to inefficiencies and low productivity levels). Management expects that it should be possible for Bode to realise an EBIT margin in the range of 6–8% in 2026 at the latest, which compares to the reported 1.6% in 2020 or 2.6% when adjusted for restructuring costs. In H121, Bode has already shown an impressive margin improvement of 320bp to 3.4% and seems well on rack to realise its margin target earlier than currently anticipated.

Valuation

For the valuation of Schaltbau Holding, we look at three different methods: historical multiples, discounted cash flow (DCF) and peer comparison. We have slightly raised our estimates and changed several assumptions for the different valuation methods, now that margin recovery is becoming more visible. For historical multiples, we previously assumed 2022e EV/EBITDA in line with its historical multiple of 10.3x, but now that we expect the company margin to remain above its historical average over the next few years, we believe a premium of 5% is more justified. This delivers a potential value per share of €45.8 (previously €41.9). For peer group comparison we have raised our assumption to a discount of 15% versus 20% previously, given that the company has started to close the margin gap compared to peers. Under this new assumption, the peer comparison shows a value of €45.4 per share (versus €41.3 previously). On slightly higher estimates and an increase in perpetual EBIT margin from 7.0% to 7.5%, our DCF indicates a value per share of €43.3 (was €39.8). The updated blended average of these three valuation methods points to a valuation of €45 per share, up from €41.0 previously (see Exhibit 3).

Exhibit 3: Valuation Schaltbau Holding

Valuation method	Edison assumptions	Equity value per share (€)
Historical multiples	2022e EV/EBITDA at 5% premium versus historical multiple	45.8
DCF	Terminal growth 1.5%, terminal EBIT margin 7.5%	43.3
Peer group	2022e EV/EBITDA at 15% discount to peers	45.4
Average value per share		**45**
Current share price		41.25
Upside		**9%**

Source: Edison Investment Research

Exhibit 4: Financial summary

€m	2018	2019	2020	2021e	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue (reported)	518.3	513.7	502.3	533.0	570.4	617.2
Gross Profit	267.3	268.3	257.2	274.5	294.4	319.1
EBITDA normalised	28.2	45.1	43.1	48.2	57.6	65.4
EBITDA reported	23.0	32.5	43.1	48.2	57.6	65.4
Depreciation & Amortisation	(12.2)	(17.0)	(16.3)	(18.9)	(20.9)	(21.2)
EBIT normalised and like-for-like	21.1	29.0	26.8	29.4	36.7	44.2
EBIT normalised	16.0	28.2	26.8	29.4	36.7	44.2
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals (Edison definition)	(23.3)	(11.0)	(5.1)	0.0	0.0	0.0
EBIT reported	(-7.3)	17.2	21.7	29.4	36.7	44.2
Net Interest	(5.8)	(7.0)	(6.9)	(5.9)	(5.3)	(4.8)
Participations	(3.0)	0.3	(0.3)	0.0	0.0	0.0
Profit Before Tax	(16.1)	10.5	14.5	23.4	31.4	39.4
Reported tax	1.9	(3.1)	(8.9)	(1.4)	(9.4)	(11.8)
Profit After Tax	(14.1)	7.4	5.7	22.0	22.0	27.6
Minority interests	(2.4)	(3.3)	(1.8)	(3.0)	(3.3)	(3.6)
Net income (normalised)	8.8	9.3	13.0	19.0	18.7	23.9
Net income (reported)	(16.5)	4.1	3.9	19.0	18.7	23.9
Average number of shares (m)	8.5	8.8	8.9	9.4	10.0	12.1
Average number of shares, diluted (m)	8.5	8.8	8.9	11.0	12.1	12.1
EPS normalised (€)	1.04	1.05	1.47	2.02	1.87	1.99
EPS normalised diluted (€)	1.04	1.05	1.47	1.74	1.71	1.99
EPS reported (€)	(1.93)	0.46	0.44	2.02	1.87	1.99
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.44
Revenue growth	0.4%	-0.9%	-2.2%	6.1%	7.0%	8.2%
Gross Margin	51.6%	52.2%	51.2%	51.5%	51.6%	51.7%
EBITDA Margin	5.4%	8.8%	8.6%	9.0%	10.1%	10.6%
Normalised Operating Margin	3.1%	5.5%	5.3%	5.5%	6.4%	7.2%
Reported EBIT margin	-1.4%	3.3%	4.35	5.5%	6.4%	7.2%
BALANCE SHEET						
Fixed Assets	142.7	164.0	155.0	183.1	200.0	201.6
Intangible Assets	51.1	49.8	43.4	42.5	41.6	40.9
Tangible Assets	75.6	89.9	94.4	123.5	141.3	143.6
Investments & other	16.0	24.3	17.1	17.1	17.1	17.1
Current Assets	254.1	237.0	256.9	290.8	287.8	309.5
Stocks	108.1	109.7	118.7	125.9	130.8	137.3
Debtors	93.3	83.6	72.8	92.7	97.2	103.1
Other current assets	31.6	18.5	26.0	27.6	28.9	30.7
Cash & cash equivalents	21.1	25.2	39.4	44.6	30.9	38.4
Current Liabilities	210.2	114.4	107.3	113.2	120.4	129.4
Creditors	47.4	50.4	41.9	44.4	47.5	51.4
Other current liabilities	53.4	49.3	54.8	58.2	62.3	67.4
Short term borrowings	109.4	14.7	10.6	10.6	10.6	10.6
Long Term Liabilities	92.7	189.4	213.8	191.8	176.8	161.8
Long term borrowings	12.1	92.7	108.6	93.6	78.6	63.6
Other long-term liabilities	80.6	96.7	105.2	98.2	98.2	98.2
Shareholders' equity	93.8	97.2	90.7	168.9	190.6	219.9
Minority interests	29.2	29.3	28.0	28.0	28.0	28.0
Balance sheet total	396.8	401.2	411.8	473.9	487.8	511.1
CASH FLOW						
Op Cash Flow before WC and tax	15.5	49.4	38.3	46.2	57.6	65.4
Working capital	(19.6)	17.8	(1.9)	(22.8)	(3.5)	(5.2)
Tax	(2.1)	(4.3)	(4.1)	0.6	(6.4)	(6.8)
Net interest	(5.3)	(8.7)	(4.4)	(5.9)	(5.3)	(4.8)
Net operating cash flow	(11.5)	54.2	27.8	18.1	42.3	48.6
Capex	(16.1)	(19.2)	(18.6)	(47.0)	(37.8)	(22.7)
Acquisitions/disposals	44.2	(1.5)	0.1	0.0	0.0	0.0
Equity financing	46.5	0.0	0.0	57.4	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other	(5.0)	(15.4)	9.2	(8.3)	(3.3)	(3.3)
Net Cash Flow	58.0	18.2	18.5	20.2	1.2	22.6
Opening net debt/(cash)	158.4	100.4	82.2	63.7	43.5	42.2
Closing net debt/(cash)	100.4	82.2	63.7	43.5	42.2	19.7

Source: Schaltbau Holding, Edison Investment Research

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