Arbonia Forster

Buy

Construction & Materials

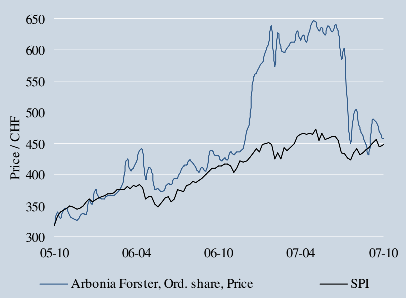
Fair Value CHF560.00 (old: CHF630.00)

2007-10-30

Price CHF458.00 (Closing price as of 2007-10-29)

Applied disclosures can be found in the appendix

Price and rel. Performance



Market Data

Reuters	AFGI.S
Bloomberg	AFG SW
Market cap CHFbn	0.9
Free float %	74.0

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	1,243.35	1,460.50	1,575.00
Net profit m	66.19	65.00	77.00
Adj. EPS	34.08	34.39	38.82
PER	11.8	13.3	11.8
EV/EBIT	9.8	12.7	10.7
EBIT mgn. %	7.5	6.5	7.0

EPS CAGR 06-09e: 9 %

Next Events

Full year results	2008-01-29

Christian Arnold, CFA
+41 (44) 2142 - 458
christian.arnold@oppenheim.ch
Bank Sal. Oppenheim jr. & Cie. (Schweiz)

BAD INDUSTRY NEWS

ZEHNDER'S PROFIT WARNING LEADS TO ESTIMATE REDUCTIONS

____Zehnder Group (Zehnder) published a profit warning yesterday evening. The manufacturer of radiators (85% of total sales) and comfort ventilation is a direct competitor in the radiators business field of Arbonia-Forster (AFG). The demand for radiators declined in the third quarter in Zehnder's main markets France, Germany and Italy, but also in most West European markets. The company expects no improvement in Q4 and therefore lowered its full year guideline (sales growth of 3-4% instead of 6-8%; net profit decline of up to 15% instead of profit increase of 6-8%).

____ Based on Zehnder's assessment we believe that AFG's radiators business will also suffer. We already estimated a sluggish sales development in H2 2007 in the heating technology / sanitary equipment division (-1%), but expected a positive margin development, like in H2 2006. We now assume H2 2007 segment margins to remain more or less on H1 2007 level and decrease segment EBITDA and EBIT FY 2007 expectations by CHF9m to CHF74m and CHF52m, respectively. However, we now include AFG's recent announced acquisition of Aqualux, as of September 28, 2007 (CHF17,5m sales and CHF1m EBIT in FY 2007e, CHF70m sales and CHF4m in FY 2008e).

____Considering a slow down in building activities in Switzerland as well, we lowered our estimates for the kitchen / refrigeration business. We expect sales of this division to grow by 3% instead of 5% in the coming years and expect margins to improve a bit slower than first anticipated.

____Our new assumptions and the first time consideration of Aqualux lead to higher sales estimates but lower operating profit and margin levels. We reduce EPS 2007 by -12% to CHF34.4 and EPS 2008 by -7% to CHF38.8.

VALUATION

Based on our new estimates for the coming years and a somewhat lower sustainable margin level for the years 2012-2016 (8.5%), our DCF model indicates a new fair value of CHF560 per AFG bearer share (old: CHF630).

CONCLUSION

Based on our new assessment we believe that the company will meet its sales guidance of more than CHF1,4bn (SOPe: CHF1'460m), but the indicated EBIT of more than CHF100m is somewhat ambitious (new SOPe: CHF95.5m; old: CHF105.5m). AFG remains one of the most inexpensive stocks in the Swiss building supplier sector, despite the lowered estimates.

Arbonia Forster - P&L (Total Costs)

CHFm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	**1,123.6**	**1,243.4**	**1,460.5**	**1,575.0**	**1,633.0**
Invent. changes & intern. prod. Assets	15.2	15.5	35.0	25.0	25.0
Cost of material	-523.1	-558.2	-680.0	-725.0	-750.0
thereof: Personnel costs	-352.6	-394.9	-480.0	-490.0	-500.0
EBITDA	**117.9**	**140.7**	**151.5**	**168.5**	**184.0**
thereof: Depreciation	-45.1	-46.8	-56.0	-58.5	-61.0
EBIT	**72.8**	**93.9**	**95.5**	**110.0**	**123.0**
Interest result	-10.0	-6.9	-13.0	-12.0	-11.0
Profit or loss on ordinary activities	**62.8**	**86.9**	**82.5**	**98.0**	**112.0**
EBT	**62.8**	**86.9**	**82.5**	**98.0**	**112.0**
Taxes	-11.3	-20.7	-17.5	-21.0	-24.5
Profit / loss for the year (cont. operations)	**51.5**	**66.2**	**65.0**	**77.0**	**87.5**
Net profit	**51.5**	**66.2**	**65.0**	**77.0**	**87.5**
Adjusted net profit	**51.5**	**66.2**	**65.0**	**77.0**	**87.5**

Key ratios and figures

CHFm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	12.0	11.8	13.3	11.8	10.4
P/BV	1.8	1.9	1.8	1.6	1.4
Dividend yield %	2.0	1.6	2.0	2.4	2.6
EV/Sales	0.7	0.7	0.8	0.7	0.7
EV/EBITDA	6.8	6.5	8.0	7.0	6.1
Sustainable FCF yield %	8.6	5.5	1.3	6.5	8.5
Data per share					
Weighted avg. number of shares	1.75	1.76	1.89	1.98	1.98
EPS (reported)	26.61	34.08	34.39	38.82	44.11
adj. EPS	26.61	34.08	34.39	38.82	44.11
Dividend	6.34	9.05	11.00	12.00	13.00
Book value per share	175.92	209.17	250.71	285.87	322.75
Sustainable FCFPS	28.4	22.5	6.2	30.5	39.6
Growth rates %					
Sales	9.4	10.7	17.5	7.8	3.7
EBITDA	-7.4	19.3	7.7	11.2	9.2
EBIT	7.1	28.9	1.8	15.2	11.8
Net profit	4.2	28.4	-1.8	18.5	13.6
adj. EPS	4.2	28.0	0.9	12.9	13.6
Margins %					
EBITDA	10.5	11.3	10.4	10.7	11.3
EBIT	6.5	7.5	6.5	7.0	7.5
Net profit	**4.6**	**5.3**	**4.5**	**4.9**	**5.4**
Expense ratios %					
Personnel cost to sales	31.4	31.8	32.9	31.1	30.6
Cost of material to sales	46.6	44.9	46.6	46.0	45.9
Depreciation to sales (Total Cost)	4.0	3.8	3.8	3.7	3.7
Tax rate	18.0	23.8	21.2	21.4	21.9
Other ratios					
Interest cover	-7.4	-8.5	-8.4	-9.9	-11.5

IMPORTANT REGULATORY DISCLOSURES

This research report has been prepared by Oppenheim Research GmbH, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA, and/or the research department of Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. and/or Bank Sal. Oppenheim jr. & Cie (Austria) AG (collectively, together with their affiliates, “Sal. Oppenheim”).

Sal. Oppenheim’s policy prohibits research analysts, strategists and research associates from investing in securities in their sub-industry as defined by the Global Industry Classification Standard, which was developed by and is the exclusive property of Morgan Stanley Capital International and Standard & Poor´s. Research analysts, strategists and research associates may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that, with respect to each security or issuer that the analyst covered in this report:

all of the views expressed accurately reflect his or her personal views about those securities or issuers; and

no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research report.

Disclosures about potential conflicts of interest

We refer to the following potential conflict(s) of interest:

Rating system

Securities firms use a variety of rating terms and systems to describe their recommendations. Sal. Oppenheim uses a rating system with the categories STRONG BUY, BUY, NEUTRAL, REDUCE and SELL (see definitions below).

A rating system using such terms as Overweight, Equal Weight or Underweight is not equivalent to our rating system. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst’s views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice, An investor’s decision to buy or sell a stock should depend on individual circumstances (such as the investor’s existing holdings) and other considerations.

The ratings in this report are based on the analyst’s expectations of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst’s view of the potential for change in stock price as a percentage. The STRONG BUY and SELL ratings reflect the analyst’s expected high change in the value of the stock.

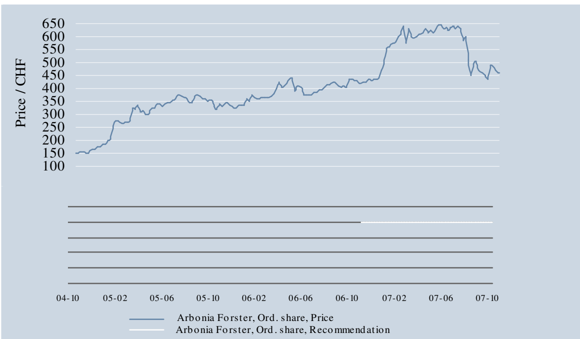
The levels of change expressed in each rating categories are: STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); and SELL (< -10%).

The change in stock price results from the difference between the current share price and the analyst’s performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted free cash flow model and a key comparables analysis.

In general, updated ratings are provided in connection with material events, such as changes in credit ratings, significant model adjustments and the publication of periodic financial information.

Ratings distribution

The following table discloses, for each of Sal. Oppenheim’s rating categories, the percentage of (1) all companies covered by Sal. Oppenheim and (2) companies for which Sal. Oppenheim provided investment banking services during the past 12 months that received such rating.



Rating Distribution

	Coverage Universe		Investment banking-relationship	
Recommendation	No.	in %	No.	in %
Strong buy	18	4.9	5	8.9
Buy	171	46.1	34	60.7
Neutral	140	37.7	17	30.4
Reduce	26	7.0	0	0.0
Sell	0	0.0	0	0.0
No rating	16	4.3	0	0.0

Previous report with differing recommendation published at .

ADDITIONAL INFORMATION FOR US INSTITUTIONAL CLIENTS

This research report is being distributed in the United States of America solely to major US institutional investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended). Sal. Oppenheim jr. & Cie. Securities Inc. accepts responsibility for the content of reports prepared by its non-US affiliates when distributed to major US institutional investors. Major US institutional investors who wish to effect any transaction in securities mentioned in this research report should do so with Sal. Oppenheim jr. & Cie. Securities Inc. at the address below and not with Sal. Oppenheim jr. & Cie. KGaA or any other Sal. Oppenheim affiliate.

Sal. Oppenheim jr. & Cie. Securities Inc.
444 Madison Avenue, 34th floor
New York, NY 10022
Tel: +1 212 888 52 46
Fax: +1 212 888 0916
E-Mail: jhagenbuch@sal-oppenheim.com

Sal. Oppenheim jr. & Cie. Securities Inc. is a broker-dealer registered with the Securities and Exchange Commission as well as a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

ADDITIONAL INFORMATION FOR U.K. CLIENTS

In the United Kingdom, this report is approved and/or distributed by Sal. Oppenheim jr. & Cie. KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG. Sal. Oppenheim jr. & Cie. KGaA registered as a German bank, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. registered as a Swiss bank and Bank Sal. Oppenheim jr. & Cie. (Austria) AG registered as an Austrian bank have no place of business in the United Kingdom and are not regulated under the Financial Services and Markets Act 2000. The protections provided by the U.K. regulatory system will not be applicable to the recipients of any information or documentation provided by Sal. Oppenheim jr. & Cie KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd., or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG and compensation under the Financial Services Compensation Scheme will not be available.

Any contact with analysts, brokers or other employees of Sal. Oppenheim jr. & Cie. KGaA, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. or Bank Sal. Oppenheim jr. & Cie. (Austria) AG must be directly with the relevant bank and not through the offices or employees of any other Sal. Oppenheim affiliate in the United Kingdom

In the United Kingdom, this document is being distributed only to persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or to persons to whom it may otherwise be lawfully communicated under the Order (together, "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons.

ADDITIONAL INFORMATION FOR CLIENTS IN GERMANY, SWITZERLAND, AUSTRIA AND OTHER COUNTRIES

In Germany, this research report is approved and/or distributed by Oppenheim Research GmbH in Cologne, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA in Cologne, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

In Switzerland, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Schweiz) AG authorized by the Eidgenössische Bankenkommission (EBK).

In Austria, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Austria) AG authorized by the Finanzmarktaufsicht (FMA).

Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

FURTHER INFORMATION

For further information on how Sal. Oppenheim manages conflicts of interest and maintains independence of its research product and on certain additional disclosures concerning research recommendations, especially in light of the continuing requirements of § 34 b of the German Securities Trading Act (WpHG), please refer to the homepage of Sal. Oppenheim: http://www.oppenheim.de/de/04_research/06_compliance/04_06.htm

DISCLAIMER

This research report contains selected information and does not purport to be complete. The research report is based on publicly available information and data (the “Information”) that is believed to be accurate and complete. Sal. Oppenheim has not independently verified the accuracy and completeness of the Information, nor does it guarantee such accuracy and completeness. Possible errors or incompleteness of the Information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, Sal. Oppenheim is not liable for the statements, plans or other details contained in the Information concerning the examined companies, their associated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling the Information, no assurance can be provided that the Information is complete or free from error.

Neither Sal. Oppenheim nor its shareholders and employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the Information contained in this research report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g., financial advisory or similar services, the liability of Sal. Oppenheim shall be restricted to gross negligence and wilful misconduct. In any case, the liability of Sal. Oppenheim is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. Sal. Oppenheim may perform investment banking services or other services for companies mentioned in this report. Directors or employees of Sal. Oppenheim may serve on the board of directors of companies mentioned in this report. Opinions expressed in this report are subject to change without notice.

Past performance is not a guide to future results. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is directed solely to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

Produced by:

Christian Arnold, CFA
Telephone +41 (44) 2142 - 458
christian.arnold@oppenheim.ch
Bank Sal. Oppenheim jr. & Cie.
(Schweiz) AG, Zurich

Sal. Oppenheim jr. & Cie. KGaA

Unter Sachsenhausen 4
50667 Köln
Telephone +49 (2 21) 1 45 – 01

Untermainanlage 1
60329 Frankfurt am Main
Telephone +49 (69) 71 34 – 0

Odeonsplatz 12
80539 München
Telephone +49 (89) 29 00 74 – 0

www.oppenheim.de
info@oppenheim.de

Oppenheim Research GmbH

Unter Sachsenhausen 4
50667 Köln
Telephone +49 (2 21) 1 45 – 02

Untermainanlage 1
60329 Frankfurt am Main
Telephone +49 (69) 71 34 – 0

www.oppenheim-research.de
research@oppenheim.de

Bank Sal. Oppenheim jr. & Cie.
(Schweiz) AG

Uraniastrasse 28
CH-8022 Zürich
Telephone + 41 (44) 2 14 22 14

Sal. Oppenheim jr. & Cie.
Securities Inc.

444 Madison Avenue, 34th Floor
New York, N.Y. 10022
USA
Telephone + 1 (2 12) 8 88 52 46

Bank Sal. Oppenheim jr. & Cie.
(Österreich) AG

Palais Equitable
Stock im Eisen-Platz 3
1010 Vienna
Telephone + 43 (1) 518 66 0

Further locations in:
Baden-Baden, Berlin, Dublin, Duesseldorf, Geneva, Hamburg, Luxembourg, Salzburg, Stuttgart, Wiesbaden

For further information please contact the institutional sales desk of Sal. Oppenheim jr. & Cie.