

SAL. OPPENHEIM

Lanxess

Chemicals

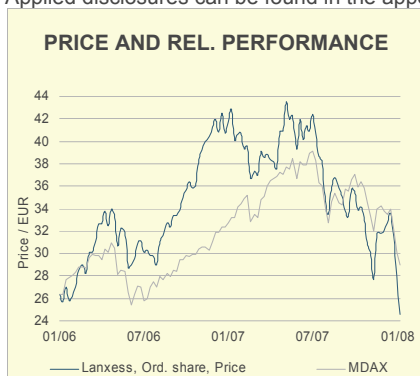
2008-01-21

Applied disclosures can be found in the appendix

Buy

Fair Value EUR38.00

Price EUR24.53 (Closing price as of 2008-01-18)



Q4 PROFIT DISAPPOINTMENT AT SABIC – CHEMICAL DEMAND IS GOING DOWN

ASSESSMENT

- One of the world's largest petrochemical companies, SABIC, showed disappointing Q4 figures due to following reasons: (I) weaker demand for chemicals, mainly due to the mortgage crisis in the US impacting the automotive and construction sectors, (II) higher input costs due to higher oil prices, (III) impact from higher financial charges as a result of the GE plastics acquisition. However, the magnitude of the impact of each individual reason is unclear. We are clearly concerned about this disappointment as reasons No. I and II could negatively impact the European chemicals. We see companies such as Lanxess, BASF, DSM (due to its engineering plastics), Solvay, Clariant, Ciba, Arkema (currently not covered) and some more in the focus to become also burdened by such a development. Most recently, we have already experienced the profit warning of Finnish Kemira (last Friday).
- The most important statement of SABIC's CEO al-Mady has been clearly: "Right now there is a correction in demand." Earlier hopes of al-Mady did not come true; that stronger demand out of India, China and the Middle East might offset the decline in demand out of the US.
- However, we had a long telephone call with Lanxess IR last week. Lanxess denied having seen any deterioration in Q4, which would not allow the achievement FY 2007e targets. Furthermore, the company said it would be on track also in Q1 2008.

MARKET DATA

Reuters	LXSG.DE
Bloomberg	LXS GR
Market cap €bn	2.1
Free float %	95.0

KEY DATA

Yr.end 12/31	2006	2007e	2008e
Revenues m	6,944.0	6,593.8	5,861.8
Net profit m	218.0	122.7	260.7
Adj. EPS	2.94	3.16	3.16
PER	11.0	11.8	7.8
EV/EBIT	9.4	14.9	6.1
EBIT mgn. %	5.4	3.9	7.6
EPS CAGR 06-09e: 2 %			

NEXT EVENTS

Full year results	2008-03-11
Quarterly results	2008-05-14
Quarterly results	2008-08-13

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VALUATION

- Despite a low valuation of some chemical companies in our universe, e.g. Lanxess (PER08e: 9.5, EV/EBITDA08e: 4.8), Clariant (PER08e: 5.2, EV/EBITDA08e: 3.7), Ciba (PER08e: 7.6, EV/EBITDA08e: 4.4), we see some increasing risks (that the "E" in the PER might come under pressure) already, in light of the profit warning of SABIC.

CONCLUSION

Because of increasing risks, we would clearly favor defensive stocks such as industrial gases (Linde, Air Liquide)), despite having "only" a neutral rating to weather any possible downward trend. Furthermore, we stick to our buy recommendation on Bayer, mainly due to its defensive activities Crop Science and Health Care. We clearly advise investors to avoid cyclicals. And here, we see some risks that the portfolio of Lanxess, containing some basic chemicals, to be burdened by a negative trend in the sector. However, we believe such burdens to be much more pronounced in the ethylene value chain (where SABIC, Dow Chemical, Nova are very strong) rather than more specialized value chains of Lanxess and other European stocks.

Lanxess - P&L (Cost of Sales)					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	7,150.0	6,944.0	6,593.8	5,861.8	6,013.8
Cost of goods sold	-5,537.0	-5,404.0	-4,943.8	-4,215.9	-4,355.6
Gross profit	1,613.0	1,540.0	1,650.1	1,645.9	1,658.2
Selling costs	-863.0	-766.0	-784.7	-705.7	-721.0
Administrative costs	-285.0	-254.0	-285.0	-307.0	-304.0
R&D costs	-101.0	-87.0	-120.0	-122.0	-120.0
Other operating income/expenses (net)	-336.0	-57.0	-202.4	-66.7	-69.0
EBITDA	581.0	630.0	569.0	701.2	707.8
EBIT	28.0	376.0	258.0	444.5	444.1
Interest result	-41.0	-23.0	-19.0	-20.0	-21.0
Other Financial income / expenses	-72.0	-29.0	-28.0	-28.0	-28.0
Financial result	-145.0	-68.0	-36.0	-58.0	-59.0
Participation result	-32.0	-16.0	11.0	-10.0	-10.0
Profit or loss on ordinary activities	-117.0	308.0	222.0	386.5	385.1
EBT	-117.0	308.0	222.0	386.5	385.1
Taxes	63.0	-85.0	-97.3	-119.8	-119.4
Profit / loss for the year (cont. operations)	-54.0	223.0	124.7	266.7	265.7
Minority	9.0	5.0	2.0	6.0	6.0
Net profit	-63.0	218.0	122.7	260.7	259.7
+ /- Net profit adjustments	163.2	30.6	144.3	6.8	6.8
Adjusted net profit	100.2	248.6	267.0	267.5	266.5
Key ratios and figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER	17.6	11.0	11.8	7.8	7.8
P/BV	1.4	1.9	2.1	1.2	1.2
Dividend yield %	0.0	0.0	0.7	2.0	2.4
EV/Sales	0.4	0.5	0.6	0.5	0.4
EV/EBITDA	4.6	5.6	6.8	3.9	3.6
Sustainable FCF yield %	32.5	14.0	19.4	21.4	27.4
Data per share					
EPS (reported)	-0.74	2.58	1.45	3.08	3.07
adj. EPS	1.18	2.94	3.16	3.16	3.15
Dividend	0.00	0.25	0.50	0.60	0.65
Book value per share	14.64	16.58	17.84	19.83	21.23
Growth rates %					
Sales	5.6	-2.9	-5.0	-11.1	2.6
EBITDA	30.0	8.4	-9.7	23.2	0.9
EBIT	-52.5	1,242.9	-31.4	72.3	-0.1
Net profit	nm	nm	-43.7	112.4	-0.4
adj. EPS	200.3	148.1	7.4	0.2	-0.3
Margins %					
Gross	22.6	22.2	25.0	28.1	27.6
EBITDA	8.1	9.1	8.6	12.0	11.8
EBIT	0.4	5.4	3.9	7.6	7.4
Net profit	-0.9	3.1	1.9	4.4	4.3
Expense ratios %					
R&D to sales	1.4	1.3	1.8	2.1	2.0
Depreciation to sales (Cost of sales)	7.7	3.7	4.7	4.4	4.4
Tax rate	53.8	27.6	43.8	31.0	31.0
Other ratios					
EVA @ SOP	-92.5	18.4	20.7	21.9	22.8
Interest cover	-14.2	-19.1	-29.9	-35.1	-33.7

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