

# SAL. OPPENHEIM

## MAN

Industrial Goods & Services

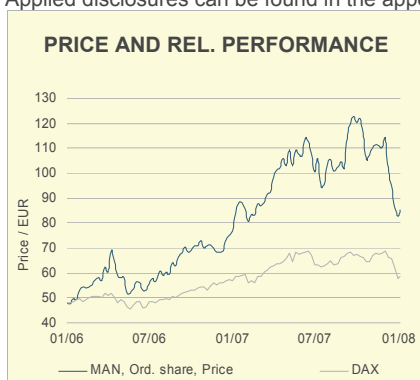
2008-01-31

Applied disclosures can be found in the appendix

## Neutral

Fair Value EUR115.00

Price EUR85.15 (Closing price as of 2008-01-30)



### WE EXPECT STRONG Q4 REPORTING

#### ASSESSMENT

- **Strong 2007 reporting (APC on February 5):** We forecast 2007 orders growth by 14% to €18.95bn (Q4 order increase by 2%), sales increase by 15% to €14.95bn (Q4 sales increase by 20%) and an operating profit improvement by 49% to €1.64bn (Q4 operating profit increase by 54%). This implies an operating margin improvement from 8.5% in the previous year to 11.0%. MAN's 2007 free cash flow includes nonrecurring income of €367 million from the ERF settlement in Q2, and an offsetting net expense of €22 million (representing the net from the acquisition in Q1 of further Scania shares, the Scania dividend and the stock split with subsequent stock repurchase by Scania). Due to a strong earnings momentum in Q4 and the nonrecurring net income of €345m posted in Q2, we forecast a 2007 free cash of €1.42bn (before the acquisition of further Scania shares). Adjusted for the nonrecurring portion, we still assume a free cash flow of €1.08bn.
- **Unchanged mid term outlook:** Looking at MAN's recent presentations from January this year, the company's 2010 targets remained unchanged: unit sales in the Commercial Vehicles division of 110,000, unit sales in the Diesel Engines division of 500, revenues in the Turbo Machinery division of €1.5bn, and revenues in the Industrial Services division of €2.0bn.
- **Prospects of the MAN-Scania merger remain an uncertain factor:** In December, MAN acquired further Scania shares and increased its capital stake to 13.2%, and its voting shares to 15.6%. While MAN's investments signal the company's ongoing interest in Scania, the recent statements by Investor AB (APC on January 21) and Volkswagen indicate that the parties did not really come closer to a final solution. Both major Scania shareholders do not consider it wise for MAN to have a seat on the Scania board and expect Scania CEO Leif Östling to fulfill his contract until March 2009. While MAN's and Volkswagen's targets are obvious, Investor AB and the Wallneberg family remain the uncertain parties.

#### MARKET DATA

Reuters	MANG.DE
Bloomberg	MAN GR
Market cap €bn	12.5
Free float %	71.0

#### KEY DATA

Yr.end 12/31	2006	2007e	2008e
Revenues bn	13.0	15.0	16.4
Net profit bn	0.7	1.3	1.3
Adj. EPS	5.05	7.66	8.97
PER	11.7	13.0	9.5
EV/EBIT	10.1	9.0	7.5
EBIT mgn. %	8.1	11.2	10.4
EPS CAGR 06-09e: 22 %			

#### NEXT EVENTS

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#### VALUATION

- We slightly enhanced our 2007 forecasts. Due to a strong order backlog and the ongoing sound order intake, 2008 will very likely be another record year for MAN. However, since GDP growth expectations for Europe came down recently, we reduced our forecasts as of 2009. We calculate the following new adj. EPS series (€): 2007e 7.66 (7.21); 2008e 8.97 (8.95); 2009e 9.20 (10.22). Our DCF fair value comes down from €135 to €115. MAN's 2008 PER of 9.8 and 2009 PER of 9.5 look more attractive against the Scania valuation (12.2 / 11.4) but less attractive against the Volvo valuation (9.4 / 8.1).

#### CONCLUSION

**Strong Q4 results and a positive outlook will be a short term trigger. Looking forward, a likely lower order momentum and the uncertainties in the MAN/Scania issue remain the risk factors.**

MAN - P&L (Cost of Sales)					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Sales</b>	<b>11,379.0</b>	<b>13,049.0</b>	<b>14,950.0</b>	<b>16,426.0</b>	<b>16,419.0</b>
Cost of goods sold	-8,943.0	-10,161.0	-11,481.5	-12,555.8	-12,538.6
<b>Gross profit</b>	<b>2,436.0</b>	<b>2,888.0</b>	<b>3,468.5</b>	<b>3,870.2</b>	<b>3,880.4</b>
Selling costs	-781.0	-813.0	-912.0	-1,002.0	-1,001.6
Administrative costs	-612.0	-679.0	-732.6	-804.9	-804.5
R&D costs	-255.0	-279.0	-306.5	-336.7	-336.6
Other operating income/expenses (net)	-195.0	-62.0	149.5	-19.7	-19.7
<b>EBITDA</b>	<b>928.0</b>	<b>1,383.0</b>	<b>2,119.8</b>	<b>2,094.5</b>	<b>2,105.5</b>
<b>EBIT</b>	<b>593.0</b>	<b>1,055.0</b>	<b>1,667.0</b>	<b>1,706.9</b>	<b>1,718.0</b>
Interest result	-62.0	-82.0	-45.0	-8.0	35.0
<b>Financial result</b>	<b>-18.0</b>	<b>-32.0</b>	<b>173.0</b>	<b>162.0</b>	<b>200.0</b>
Participation result	44.0	50.0	218.0	170.0	165.0
<b>Profit or loss on ordinary activities</b>	<b>575.0</b>	<b>1,023.0</b>	<b>1,840.0</b>	<b>1,868.9</b>	<b>1,918.0</b>
<b>EBT</b>	<b>575.0</b>	<b>1,023.0</b>	<b>1,840.0</b>	<b>1,868.9</b>	<b>1,918.0</b>
Taxes	-160.0	-273.0	-570.4	-542.0	-556.2
<b>Profit / loss for the year (cont. operations)</b>	<b>415.0</b>	<b>750.0</b>	<b>1,269.6</b>	<b>1,326.9</b>	<b>1,361.8</b>
Discontinuing operations (net)	57.0	175.0	7.0	10.0	15.0
Minority	-10.0	-7.0	-8.0	-8.5	-9.0
<b>Net profit</b>	<b>405.0</b>	<b>743.0</b>	<b>1,261.6</b>	<b>1,318.4</b>	<b>1,352.8</b>
+ /- Net profit adjustments	0.0	0.0	-135.0	0.0	0.0
<b>Adjusted net profit</b>	<b>405.0</b>	<b>743.0</b>	<b>1,126.6</b>	<b>1,318.4</b>	<b>1,352.8</b>
Key ratios and figures					
EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Valuation</b>					
PER	13.5	11.7	13.0	9.5	9.3
P/BV	1.8	2.3	2.8	2.2	1.9
Dividend yield %	2.8	2.3	2.0	3.1	3.6
EV/Sales	0.6	0.8	1.0	0.8	0.7
EV/EBITDA	7.5	7.7	7.1	6.1	5.7
Sustainable FCF yield %	22.8	11.4	17.9	13.6	16.8
<b>Data per share</b>					
Weighted avg. number of shares	147.04	147.04	147.04	147.04	147.04
EPS (reported)	2.75	5.05	8.58	8.97	9.20
adj. EPS	2.75	5.05	7.66	8.97	9.20
Dividend	1.35	2.00	2.68	3.05	3.04
Book value per share	20.19	25.56	35.74	39.48	45.71
Sustainable FCFPS	10.6	8.1	19.5	12.9	15.1
<b>Growth rates %</b>					
Sales	-18.9	14.7	14.6	9.9	-0.0
EBITDA	-8.8	49.0	53.3	-1.2	0.5
EBIT	-3.6	77.9	58.0	2.4	0.7
Net profit	32.8	83.5	69.8	4.5	2.6
adj. EPS	32.8	83.5	51.6	17.0	2.6
<b>Margins %</b>					
Gross	21.4	22.1	23.2	23.6	23.6
EBITDA	8.2	10.6	14.2	12.8	12.8
EBIT	5.2	8.1	11.2	10.4	10.5
<b>Net profit</b>	<b>3.6</b>	<b>5.7</b>	<b>8.4</b>	<b>8.0</b>	<b>8.2</b>
<b>Expense ratios %</b>					
Personnel cost to sales	-23.8	-21.3	-19.0	-17.8	-18.2
Cost of material to sales	-52.7	-54.3	-54.3	-54.3	-54.3
R&D to sales	2.2	2.1	2.1	2.1	2.1
Depreciation to sales (Cost of sales)	-2.9	-2.5	-3.0	-2.4	-2.4
Tax rate	27.8	26.7	31.0	29.0	29.0
<b>Other ratios</b>					
Interest cover	-9.5	-11.1	-24.9	-41.9	-60.2

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