

Smartrac

Technology

2007-11-29

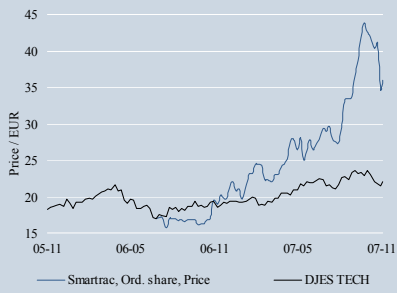
Applied disclosures can be found in the appendix

Buy

Fair Value EUR50.00

Price EUR36.00 (Closing price as of 2007-11-28)

Price and rel. Performance



Market Data

Reuters	SM7.DE
Bloomberg	SM7 GR
Market cap €bn	0.5
Free float %	77.1

Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	52.47	96.76	148.02
Net profit m	9.12	20.51	29.50
Adj. EPS	0.68	1.52	2.19
PER	25.9	23.7	16.5
EV/EBIT	21.0	22.5	15.3
EBIT mgn. %	18.3	21.4	20.0

EPS CAGR 06-09e: 63 %

Next Events

XYTEC INTEGRATION INCREASES FLEXIBILITY

INVESTMENT CASE AND PERFORMANCE TRIGGER

Demand for e-passport inlays continues to develop more favorably than we had initially expected. SMARTRAC is the dominant market leader and a single source for the high volume US passports, leading to significant sales and earnings growth. Looking forward, we also believe the thus far underperforming standard division will re-accelerate again on the back of new product introductions, and it will become a substantial growth engine over the 2008/2009 time frame. Today's announcement of the 100% integration of Xytec will ensure access to production equipment capacity that is necessary for future growth.

FACTS

SMARTRAC announced to acquire 100% of the equipment producer Xytec where SMARTRAC sources its production equipment where, to this point, it had only a 30% stake. Xytec produces exclusively for SMARTRAC and has not been allowed to sell RFID inlay (wire embedding) equipment to a third party.

ASSESSMENT

We regard the full integration of Xytec as a positive strategic move. SMARTRAC will expand its portfolio and is about to enter new markets that rely on etching technology like electronic paper tickets. Since SMARTRAC's core competence is in wire embedding, the company also needs new equipment technology that it is developing together with Xytec. Having 100% control should therefore increase the company's strategic flexibility. We reiterate the **buy** recommendation.

VALUATION

Based on our forecast, SMARTRAC trades at a PER (2009e) of 12.4, which is low when compared to our expectation that the company will generate an EPS growth of 63% (CAGR 2006-09e).

Smartrac - P&L (Cost of Sales)

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Sales	25.2	52.5	96.8	148.0	200.7
Cost of goods sold	-17.3	-34.0	-55.0	-94.4	-128.1
Gross profit	7.8	18.5	41.8	53.6	72.6
Selling costs	-4.3	-8.7	-20.4	-23.9	-32.4
Other operating income/expenses (net)	-0.0	-0.2	-0.7	0.0	0.0
EBITDA	4.9	11.9	24.9	36.2	48.0
EBIT	3.6	9.6	20.7	29.7	40.2
Interest result	-0.6	-0.6	0.1	2.1	3.3
Financial result	-0.6	-0.6	0.1	2.1	3.3
Profit or loss on ordinary activities	3.0	9.0	20.8	31.7	43.5
EBT	3.0	9.0	20.8	31.7	43.5
Taxes	0.0	0.2	-0.3	-2.2	-4.4
Profit / loss for the year (cont. operations)	3.0	9.1	20.5	29.5	39.2
Net profit	3.0	9.1	20.5	29.5	39.2
Adjusted net profit	3.0	9.1	20.5	29.5	39.2

Key ratios and figures

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
Valuation					
PER		25.9	23.7	16.5	12.4
P/BV		3.4	5.4	4.1	3.1
Dividend yield %		0.0	0.0	0.0	0.0
EV/Sales		3.8	4.8	3.1	2.2
EV/EBITDA		16.9	18.7	12.6	9.0
Sustainable FCF yield %		2.1	1.5	3.2	6.0
Data per share					
Weighted avg. number of shares	10.00	11.56	13.50	13.50	13.50
EPS (reported)	0.30	0.68	1.52	2.19	2.90
adj. EPS	0.30	0.68	1.52	2.19	2.90
Book value per share	0.99	5.14	6.66	8.85	11.75
Sustainable FCFPS	-0.0	0.3	0.5	1.2	2.2
Growth rates %					
Sales	71.3	108.4	84.4	53.0	35.6
EBITDA	28.9	143.3	109.1	45.2	32.8
EBIT	46.3	168.6	115.6	43.3	35.6
Net profit	28.7	202.2	124.9	43.8	32.8
adj. EPS	28.7	123.8	124.9	43.8	32.8
Margins %					
Gross	31.1	35.2	43.2	36.2	36.2
EBITDA	19.5	22.7	25.7	24.4	23.9
EBIT	14.2	18.3	21.4	20.0	20.1
Net profit	12.0	17.4	21.2	19.9	19.5
Expense ratios %					
Depreciation to sales (Cost of sales)	5.3	4.4	4.3	4.4	3.9
Tax rate	-1.2	-1.8	1.4	7.0	10.0
Other ratios					
Interest cover	nm	nm	nm	nm	nm

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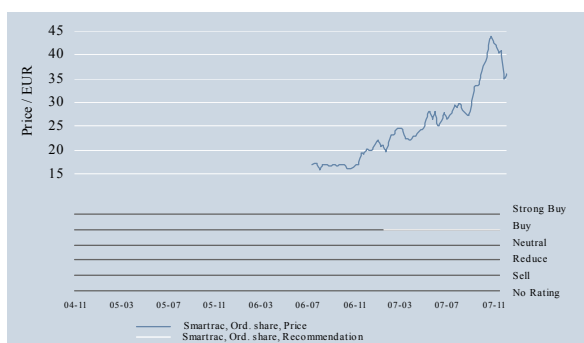
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No rating	26	6,8	3	5,3

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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

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Produced by:

Jürgen Wagner, CFA, Dipl.-Kfm.
Telephone +49 (0) 69/71 34 - 53 89
juergen.wagner@oppenheim.de
Oppenheim Research GmbH,
Frankfurt

Publishing Team
Jane Morgan (Editor)
Lydia Büttner (DTP)

Press contact:
Tel. +49 221 145-2998
presse@oppenheim.de

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

5

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.

Frankfurt: + 49 (69) 71 34 - 0

Hans-Peter Fliegel - 51 43
 Thomas Ausschill - 54 34
 Heiko Backmann - 54 21
 Andrea Bollina - 54 61
 Daniel Friedmann - 55 46
 Michela Gess - 51 26
 Rainer Jell - 51 57
 Jürgen Kaup - 51 59
 Matt Patterson - 54 25
 Alexander Schumacher - 55 98
 Heinz-Gerd Vinken - 51 62

Specialist Sales Health Care

Claudia Lakatos - 5202

Cologne: + 49 (2 21) 1 45 -01

Heribert Raskop - 18 93
 Wolfgang Wenzel - 1758

Munich: + 49 (89) 29 00 -740

Jürgen Benker - 74 52
 Nicola Facciorusso - 74 55
 Roberto Falaschi - 74 57
 Friedhelm Hopp - 74 58
 Klaus Pfäller - 74 54
 Dr. Alex Vogel - 74 51
 Robert Weller - 74 53
 Tina Zöttl - 74 56

New York: + 1 (2 12) 8 88 –

Jörg Hagenbuch - 84 57
 Robert Baer - 83 06
 Bill Dixon - 52 53
 Alex Gloy - 14 23
 Francois Gour - 52 48
 Sanjiv K. Jaswal - 44 21

e-mail

hans-peter.fliegel@oppenheim.de
 thomas.auschill@oppenheim.de
 heiko.backmann@oppenheim.de
 andrea.bollina@oppenheim.de
 daniel.friedmann@oppenheim.de
 michela.gess@oppenheim.de
 rainer.jell@oppenheim.de
 juergen.kaup@oppenheim.de
 matt.patterson@oppenheim.de
 alexander.schumacher@oppenheim.de
 heinz-gerd.vinken@oppenheim.de

claudia.lakatos@oppenheim.de

e-mail

heribert.raskop@oppenheim.de
 wolfgang.wenzel@oppenheim.de

e-mail

juergen.benker@oppenheim.de
 nicola.facciorusso@oppenheim.de
 roberto.falaschi@oppenheim.de
 fritz.hopp@oppenheim.de
 klaus.pfaeller@oppenheim.de
 alex.vogel@oppenheim.de
 robert.weller@oppenheim.de
 tina.zoetl@oppenheim.de

e-mail

jhagenbuch@sal-oppenheim.com
 rbaer@sal-oppenheim.com
 wdixon@sal-oppenheim.com
 agloy@sal-oppenheim.com
 fgour@sal-oppenheim.com
 sjaswal@sal-oppenheim.com

Paris: +33 (1) 56 52 -

Jefferson von Pfeil - 90 53
 Niccolo di Brazza - 90 54

Zurich: + 41 (44) 2 14 -

Ronald Birrer - 23 69
 Tristan de Blonay - 24 72
 Paolo Bozzo - 22 81
 Alfonso Catalano - 22 46
 Marco Galfetti - 25 28
 Marcel Hofstetter - 23 45
 Olivier Humm - 23 94
 Alexandre Kaufmann - 23 57
 Harald Moser - 23 48
 Christopher Ziegler - 22 78

e-mail

jefferson.pfeil@oppenheim.fr
 niccolo.brazza@oppenheim.fr

e-mail

ronald.birrer@oppenheim.ch
 tristandeblonay@oppenheim.ch
 paolo.bozzo@oppenheim.ch
 alfonso.catalano@oppenheim.ch
 marco.galfetti@oppenheim.ch
 marcel.hofstetter@oppenheim.ch
 olivier.humm@oppenheim.ch
 alexandre.kaufmann@oppenheim.ch
 harald.moser@oppenheim.ch
 christopher.ziegler@oppenheim.ch

Sales Trading

Frankfurt: + 49 (69) 71 34 -

Marcus Hahn - 51 27
 Ralf Loke - 50 40
 Thomas Seibert - 52 19
 Claudio Vargiu - 53 18
 Edgar Wilczek - 50 61

e-mail

marcus.hahn@oppenheim.de
 ralf.loke@oppenheim.de
 thomas.seibert@oppenheim.de
 claudio.vargiu@oppenheim.de
 edgar.wilczek@oppenheim.de

New York: +1 (2 12) 8 88 -

Robert Florio - 67 54
 Michael Mikelic - 53 87
 Kent Evan Penney - 87 70

rflorio@sal-oppenheim.com
 mmikelic@sal-oppenheim.com
 kpenney@sal-oppenheim.com

Zurich: + 41 (44) 2 14 -

Stefan Kremeth - 24 46
 Raphael Benz - 22 42
 Luke Boller - 22 47
 Oliver Kamm - 22 50
 Douglas Moser - 24 48
 Silvio Schuler - 23 51
 Daniel Wüest - 21 42

e-mail

stefan.kremeth@oppenheim.ch
 raphael.benz@oppenheim.ch
 luke.boller@oppenheim.ch
 oliver.kamm@oppenheim.ch
 douglas.moser@oppenheim.ch
 silvio.schuler@oppenheim.ch
 daniel.wueest@oppenheim.ch