

STRABAG SE

Mid cap: construction– (full coverage)
MOODY'S/ S&P/ FITCH: (--/ BBB-/ --)

Private Bankers  founded 1590

BERENBERG BANK

Joh. Berenberg, Gossler & Co. H.G.

Q1 preview - coverage start with marketweight on senior bonds

Topic: STRABAG is to release Q1 numbers next week Thursday, June 31. A conference call is scheduled for 2pm that day (+49 69 566 036 000). Harsh weather conditions during Q1 12 make Berenberg expect declining results yoy.

Top line is estimated to come in at € 2.17bn, down 2% yoy driven by both weaker sales in Building Construction & Civil Engineering as well as Transportation Infrastructure. Only in Concessions, we expect stable sales.

STRABAG	Q1	Δ	Q1 2012	Q4
Y/E 31/12	2011	margin	Berenberg	2011
Sales	2210.0		2,165.5	4,004.3
yoy in %	23.6%		-2.0%	-
qoq in %	-		-45.9%	-
EBITDA*	-59.8		-119.5	268.2
yoy in %	29.9%		99.9%	-
margin in %	-2.7%	- 2.8 pp	-5.5%	6.7%
EBIT	-145.4		-217.5	127.2
yoy in %	-3.0%		49.6%	-
margin in %	-6.6%	- 3.5 pp	-10.0%	3.2%

Given continuous pressure on input costs, the gross margin is expected to suffer. The pressure on gross profit coupled with **lower utilization rates due to the hard winter are expected to impact disproportionately on EBITDA that Berenberg expects to decline to € -120m.**

Q1 is, however, seasonally weak and, thus, does neither come as a surprise nor as a threat to FY expectations. STRABAG will still be able to work down its sizeable backlog which stood at € 13.4bn at year-end 2011.

STRABAG's competitive quality is regarded as high given its good backward integration into asphalt, concrete, and gravel, its high flexibility in employing its machinery fleet and due to scale advantages given its size, all of which support the credit investment case. And **Q1 order intake should be solid at > € 3bn.**

Berenberg initiates its recommendation on all STRABAG senior bonds with marketweight. Compared to its peers, there is neither sufficient spread widening nor tightening potential.

Y/E Dec. 31, EURm	2007	2008	2009	2010	2011	2012e
Sales	9,879	12,228	12,552	12,382	13,714	13,851
EBITDA	596	648	684	735	746	735
EBIT	312	270	283	299	335	301
Net profit	170	157	161	175	195	143
Y/E gross debt (cash)	972	2,167	1,976	1,994	2,140	1,990
Y/E net debt (cash)	-994	675	193	42	440	529
Adj. Y/E net debt (cash) ⁽¹⁾	-464	1,431	892	730	1,153	1,239
Equity ratio	40.0%	30.5%	32.2%	31.1%	30.3%	29.6%
Adj. equity ratio ⁽²⁾	38.3%	27.4%	29.0%	27.9%	27.0%	26.2%
Adj. net debt/ EBITDA	-0.7x	1.8x	1.1x	0.8x	1.3x	1.4x
Adj. EBITDA/ interest	8.0x	6.4x	8.6x	9.0x	9.3x	9.0x
FFO/ gross debt	46.7%	24.7%	28.5%	22.8%	21.3%	21.4%
Gross margin	30.6%	31.4%	33.4%	34.3%	33.0%	33.5%
EBITDA margin	6.0%	5.3%	5.5%	5.9%	5.4%	5.3%
EBIT margin	3.2%	2.2%	2.3%	2.4%	2.4%	2.2%
RoE	5.9%	5.5%	5.5%	5.7%	6.6%	4.9%
RoCE	7.2%	4.6%	4.3%	4.5%	4.8%	4.3%
Operating cashflow	494	690	1,115	690	501	563
Free cashflow ⁽³⁾	-50	-187	606	137	24	43
FFO	454	535	563	611	607	577
Capex	544	877	509	554	477	520
Rating history ⁽⁴⁾	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: Company data, Berenberg Fixed Income Research; Remarks: 1) Net debt incl. off-balance-sheet debt (op. lease) & pension provisions; 2) Equity ratio post goodwill; 3) after maint. capex; 4) the lower respective rating by Moody's/ S&P/ Fitch or Berenberg's FIBER Score (Fixed Income Berenberg Research)

FIBER Score: **BBB2**

Outlook	st.
STRABAG 3/4 5/18	25. May 2012
ASW Spread	250
CDS	n.a.

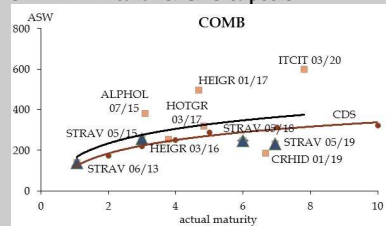
Marketweight

Price/ yield cash bond (BGN)	104.45 / 3.9%
Volume outstanding (EURm)	100.0
Bloomberg:	BHSTRB 4 1/4 05/10 / STRV
Moody's Rating/ Outlook:	--/ --
S&P Rating/ Outlook:	BBB-/ st.
Fitch Rating/ Outlook:	--/ --
Financial calendar:	--

Balance sheet data FY 2012 (in EURm):

Equity:	3097.0
Goodwill adj. equity:	2621.3
LT financial liabilities:	1320.0
ST financial liabilities:	240.0
Provisions:	1866.7
Other liabilities:	3464.8
Off-B/S liabilities:	230.0
Cash:	1460.6

STRABAG 3/4 5/18 vs. CDS & peers



Source: Bloomberg

Historic spread development:

Δ1y	Δ6M	Δ1M
+80 bps	-44 bps	-1 bps

Business activities:

Construction Group:
Building Construction & Civil Engineering
Transportation Infrastructures

Additional data:

Enterprise value (EURm):	3020.6
Market capitalization (EURm):	2011.2
Total bond vol. outst. (EURm):	425.0
Authorized capital (m pcs):	57.0

Management:

Dr. Hans-Peter Haselsteiner (CEO)

Supervisory Board:

Dr. Alfred Gusenbauer (Chairman)
Mg. Erwin Hameseder (Deputy Chairman)

Shareholder structure:

29.5% Haselsteiner Gruppe
17.0% Rasperia Trading
15.5% Raiffeisen Gruppe
15.0% UNIQA Gruppe

25 May 2012

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Financial statement

Ratios	2007	2008	2009	2010	2011	2012e
Security						
Y/E gross debt (EURm)	972	2,167	1,976	1,994	2,140	1,990
Y/E net debt or (net cash) (EURm)	-994	675	193	42	440	529
Net debt/ EBITDA	-1.7x	1.0x	0.3x	0.1x	0.6x	0.7x
Debt from operating lease contracts (EURm)	176	284	264	243	259	230
Pension provisions (EURm)	355	471	435	444	455	480
Adj. net debt/ adj. EBITDA	-0.7x	1.8x	1.1x	0.8x	1.3x	1.4x
Debt/ equity	31.4%	72.7%	63.8%	61.7%	67.9%	64.3%
Net debt/ equity	-32.1%	22.7%	6.2%	1.3%	14.0%	17.1%
FFO/ gross debt	46.7%	24.7%	28.5%	22.8%	21.3%	21.4%
FFO/ net debt	-97.9%	37.4%	63.1%	83.7%	52.6%	46.6%
EBIT interest cover	3.7x	2.2x	2.9x	3.1x	3.4x	3.2x
EBITDA interest cover	7.0x	5.4x	7.1x	7.6x	7.6x	7.7x
Altman's Z-score	2.5	1.7	1.8	1.6	1.8	1.8
Dividend payout ratio	45.5%	39.9%	35.3%	35.9%	33.3%	42.6%
Cashflow (EURm)						
Operating cashflow (after maintenance capex)	494	690	1,115	690	501	563
Capex	544	877	509	554	477	520
Free cashflow (excl. acquisitions)	-50	-187	606	137	24	43
Funds from operations	454	535	563	611	607	577
Funds management & liquidity						
Working capital/ sales	6.4%	6.0%	3.2%	1.3%	4.6%	3.6%
Cash flow/ sales	4.7%	4.3%	4.5%	4.9%	4.4%	4.1%
Capital expenditure/ sales	5.6%	7.1%	4.0%	4.4%	3.4%	3.7%
Maint. cap. exp./ sales	3.0%	3.2%	3.3%	3.5%	3.1%	1.4%
FCF/ sales	-0.5%	-1.5%	4.8%	1.1%	0.2%	0.3%
Capital expenditure/ dep'n	191.9%	232.0%	126.7%	127.1%	115.9%	119.8%
Stocks in days of sales (days)	26	29	28	31	32	31
Trade debtors in days of sales (days)	90	85	70	75	70	75
Trade creditors in days of COGS (days)	106	98	102	101	94	98
Cash conversion cycle (days)	10	15	-4	6	8	8
Current ratio	1.7	1.4	1.4	1.5	1.4	1.4
Asset utilisation efficiency						
Capital employed turnover	1.9	1.9	1.9	1.8	2.0	2.0
Operating asset turnover	4.5	4.5	5.0	5.5	5.3	5.0
Inventory turnover	20.7	18.1	19.1	17.5	16.8	17.5
Operational efficiency						
Gross margin	30.6%	31.4%	33.4%	34.3%	33.0%	33.5%
EBIT margin	3.2%	2.2%	2.3%	2.4%	2.4%	2.2%
Net profit margin	1.7%	1.3%	1.3%	1.4%	1.4%	1.0%
Operating leverage	9.7x	14.2x	14.8x	14.2x	13.5x	15.4x
Total operating costs/ sales	93.9%	94.7%	94.6%	94.1%	94.6%	94.7%
No. of employees	61,125	73,008	75,548	73,600	76,866	77,000
Personnel costs/ sales	21.3%	21.1%	22.5%	22.6%	21.9%	22.3%
Sales per employee (EURk)	160	169	167	169	180	181
EBITDA per employee (EURk)	10	9	9	10	10	10
Costs per employee (EURk)	34	35	37	38	39	40
Returns						
RoCE I (EBIT/ Y/E capital employed)	6.1%	4.1%	4.3%	4.4%	4.8%	4.3%
RoCE II (EBIT/ avg. capital employed)	7.2%	4.6%	4.3%	4.5%	4.8%	4.3%
RoE (net profit/ Y/E equity)	5.9%	5.5%	5.5%	5.7%	6.6%	4.9%
Cash RoCE	10.2%	6.6%	5.8%	6.2%	6.6%	5.6%
Other						
Interest received/ avg. cash	3.9%	5.2%	4.8%	4.2%	6.1%	4.0%
Interest paid/ avg. debt	7.1%	7.7%	4.7%	4.9%	4.8%	4.6%

Source: Company data, Berenberg estimates

Profit and loss account (EURm)	2007	2008	2009	2010	2011	2012e
Sales	9,879	12,228	12,552	12,382	13,714	13,851
Own work capitalised	-129	107	81	80	135	111
Total sales	9,750	12,335	12,633	12,462	13,848	13,962
Other operating income	230	240	254	323	271	311
Material expenses	6,730	8,494	8,447	8,218	9,320	9,326
Personnel expenses	2,102	2,575	2,823	2,801	3,004	3,090
Other operating expenses	552	858	933	1,030	1,048	1,122
EBITDA	596	648	684	735	746	735
Depreciation	276	341	359	357	382	388
EBITA	320	307	325	378	365	347
Amortisation of intangible assets	3	11	17	29	14	21
Impairment charges	0	0	0	0	0	0
EBIT	312	270	283	299	335	301
Interest income	50	90	78	79	112	63
Interest expenses	85	121	97	97	99	96
Other financial result	1	10	2	2	5	7
Financial result	-36	-41	-20	-20	9	-39
Income on ordinary activities before taxes	276	229	263	279	343	262
Extraordinary income/ loss	0	0	0	0	0	0
EBT	276	229	263	279	343	262
Taxes	69	63	78	91	104	79
Net income from continuing operations	208	166	185	188	239	183
Income from discontinued operations (net of tax)	0	0	0	0	0	0
Net income	208	166	185	188	239	183
Minority interest	37	9	23	14	44	40
Net income (net of minority interest)	170	157	161	175	195	143

Source: Company data, Berenberg estimates

Balance sheet (EURm)	2007	2008	2009	2010	2011	2012e
Intangible assets	240	463	496	536	537	550
Thereof goodwill	213	421	434	468	472	476
Property, plant and equipment	1,544	2,045	2,146	2,102	2,154	2,321
Financial assets	593	1,648	1,524	1,493	1,670	1,663
Fixed assets	2,376	4,156	4,166	4,131	4,361	4,535
Inventories	477	674	656	706	818	791
Accounts receivable	2,448	2,836	2,402	2,549	2,630	2,846
Other current assets	380	469	473	830	703	640
Liquid assets	1,966	1,491	1,783	1,952	1,700	1,461
Deferred taxes + other accruals	94	138	134	214	174	195
Current assets	5,364	5,609	5,447	6,251	6,025	5,933
TOTAL	7,741	9,765	9,614	10,382	10,386	10,467
Shareholders' equity	2,871	2,838	2,950	3,091	2,939	2,917
Minority interest	226	141	149	141	211	180
Long-term debt	772	1,893	1,741	1,754	1,707	1,750
Pension provisions	355	471	435	444	455	480
Other provisions	719	913	1,013	1,195	1,260	1,387
Non-current liabilities	1,846	3,277	3,189	3,392	3,422	3,617
Short-term debt	199	274	235	241	433	240
Accounts payable	1,959	2,286	2,360	2,266	2,395	2,505
Advance payments	347	505	315	845	576	650
Other liabilities	272	370	361	356	362	310
Deferred taxes + other accruals	21	74	54	49	48	49
Current liabilities	2,798	3,509	3,325	3,757	3,814	3,754
TOTAL	7,741	9,765	9,614	10,382	10,386	10,467

Source: Company data, Berenberg estimates

Cash flow statement (EURm)	2007	2008	2009	2010	2011	2012e
Net profit/ loss	208	166	185	188	239	183
Depreciation of fixed assets	282	357	369	357	406	388
Amortisation of goodwill	4	25	25	50	16	25
Amortisation of intangible assets	3	11	17	29	14	21
Other	-80	-18	53	23	97	25
Cash flow from operations before changes in w/c	416	542	649	647	772	642
Change in inventory	32	-97	18	-48	-67	27
Change in accounts receivable	-61	70	641	-248	-177	-216
Change in accounts payable	165	135	-147	351	-9	110
Change in other working capital positions	-58	40	-46	-11	-18	0
Change in working capital	78	148	466	44	-271	-80
Cash flow from operating activities	494	690	1,115	690	501	563
Maintenance capex	289	393	412	436	436	200
Cash flow from operating activities after maintenance	205	296	704	255	65	363
Capex, excluding maintenance	255	483	97	118	41	320
Payments for acquisitions	218	163	5	68	106	95
Financial investments + other	66	132	54	48	161	0
Income from asset disposals	187	126	131	146	128	128
Cash flow from investing activities	-641	-1,046	-437	-524	-616	-487
Cash flow before financing	-147	-356	678	167	-115	75
Increase/ decrease in debt position	-296	60	-306	51	163	-150
Purchase of own shares	0	0	0	0	185	100
Capital measures	1,907	0	0	0	0	0
Dividend paid	77	63	63	57	63	65
Others	-10	-94	-18	-14	3	0
Effects of exchange rate changes on cash	2	-21	0	23	-56	0
Cash flow from financing activities	1,524	-97	-386	-20	-82	-315
Increase/ decrease in liquid assets	1,380	-474	292	170	-252	-240
Liquid assets at end of period	1,966	1,491	1,783	1,952	1,700	1,461

Source: Company data, Berenberg estimates

Y/E Dec. 31, IFRS	2007	2008	2009	2010	2011	2012e
Regional sales (EURm)						
Domestic	5,916	7,366	7,361	6,958	7,594	7,457
Rest of EMEA	4,606	6,170	5,414	5,447	6,366	6,262
NAFTA	110	118	162	246	257	276
South America	0	0	0	0	0	0
Asia/ Pacific	114	89	84	126	109	103
Rest of world	0	0	0	0	0	0
TTL	10,746	13,743	13,021	12,777	14,326	14,099
Regional sales shares						
Domestic	55.1%	53.6%	56.5%	54.5%	53.0%	52.9%
Rest of EMEA	42.9%	44.9%	41.6%	42.6%	44.4%	44.4%
NAFTA	1.0%	0.9%	1.2%	1.9%	1.8%	2.0%
South America	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asia/ Pacific	1.1%	0.6%	0.6%	1.0%	0.8%	0.7%
Rest of world	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TTL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company data, Berenberg estimates

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Company	Disclosures
STRABAG SE	1, 3

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- (2) Berenberg Bank acts as Designated Sponsor for this company.
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- (5) Berenberg Bank holds a trading position in shares of this company.
- (6) Berenberg Bank and/or its affiliate(s) a holds a net short position of 1 % or more of the share capital of this company, calculated by methods required by German law as of the last trading day of the past month.

Historical recommendation changes for BHSTRB 4 1/4 CORP (05/15) in the last 12 months

Date	Recommendation	Initiation coverage
<u>25 May 2012</u>	<u>Marketweight</u>	<u>25 May 2012</u>

Historical recommendation changes for BHSTRB 4 1/4 CORP (05/19) in the last 12 months

Date	Recommendation	Initiation coverage
<u>25 May 2012</u>	<u>Marketweight</u>	<u>25 May 2012</u>

Historical recommendation changes for BHSTRB 5 3/4 CORP (06/13) in the last 12 months

Date	Recommendation	Initiation coverage
<u>25 May 2012</u>	<u>Marketweight</u>	<u>25 May 2012</u>

Historical recommendation changes for BHSTRB 4 3/4 CORP (05/18) in the last 12 months

Date	Recommendation	Initiation coverage
<u>25 May 2012</u>	<u>Marketweight</u>	<u>25 May 2012</u>

Berenberg distribution of recommendations and in proportion to investment banking services

Overweight	17.65 %	14.29 %
Underweight	17.65 %	28.57 %
Marketweight	64.71 %	57.14 %

Valuation basis / recommendation key

Overweight: Sustainable spread tightening potential higher 10% within 3-6 months.

Underweight: Sustainable spread widening potential lower 10% within 3-6 months.

Marketweight: Limited spread movement potential. No immediate catalyst visible.

NB Berenberg Bank Fixed Income Research does not make recommendations on the basis of absolute performance, but on performance expected relative to the market or peer group as spreads move with markets and sectors as well as with the issuer itself.

Competent supervisory authority

Bundesanstalt für Finanzdienstleistungsaufsicht –BaFin– (Federal Financial Supervisory Authority),
Graurheindorfer Straße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt am Main

Remarks

Berenberg has made any effort to carefully research all information contained in this financial analysis. The information on which the financial analysis is based has been obtained from sources which we believe to be reliable such as, for example, Reuters, Bloomberg and the relevant specialised press as well as the company which is the subject of this financial analysis.

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https://www.berenberg.de/en/fir_en.html

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