



# Fuchs Petrolub Pref.

Buy (previous: Buy) Target Price: € 80.00

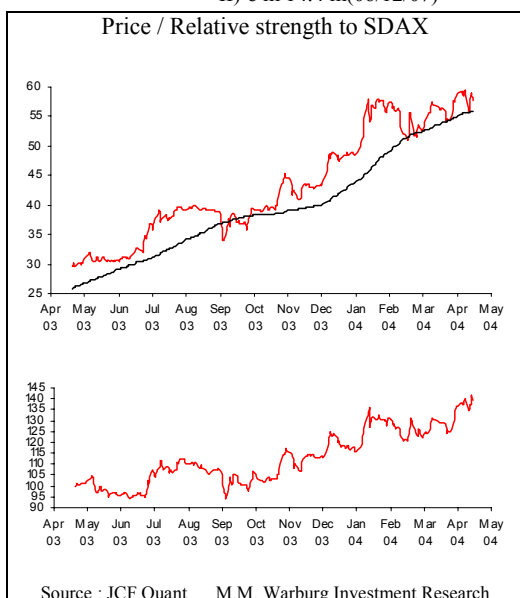
## Specialty Chemicals (Lubricants)

### Bullet Points

Reuters symbol: FPEG\_p.DE  
ISIN: DE0005790430

Price on May 14, 2004: € 57.61  
High/Low 12 month: € 59.49/29.42

Capital	Ownership structure	Upcoming events
Market capitalization € 475.2 m	widely spread	August 17, 2004 : Q2 report
Number of shares ord. 3.9 m	Fuchs family	September 15, 2004 : Analysts
Number of shares pref. 3.9 m	Gothaer Versicherung	November 14, 2004 : Q3 report
Subscribed capital € 70.7 m	widely spread	
Authorized capital I) € m 11.7 m (06/30/05)		
II) € m 14.4 m(06/12/07)		



in €	2003	2004e	2005e	2006e
EPS (current)	4.21	4.51	7.25	7.80
EPS (previous)	4.21	4.31	6.72	7.39
CFPS	10.93	11.07	11.96	12.94
Dividend	1.73	1.83	2.00	2.20

in € m	2003	2004e	2005e	2006e
Sales	1,040.9	1,067.0	1,099.0	1,132.0
EBITDA	121.8	124.0	131.5	139.0
EBIT	75.2	82.3	106.5	112.0
Net income	29.7	34.8	56.2	60.5
Cash flow	78.9	87.0	94.0	101.7
ROCE (EBIT/CE)	15.0%	16.9%	21.3%	21.8%

	2003	2004e	2005e	2006e
PER	7.8	12.8	7.9	7.4
PCFR	3.1	5.5	5.1	4.7
Div. Yield	4.8%	2.9%	3.2%	3.5%
EV/Sales	0.38	0.55	0.50	0.46
EV/EBITDA	3.3	4.7	4.2	3.7

### Lubricant specialist still on a successful tack

- Strong organic growth and substantial profit surge in Q1 2004:** In the first quarter of 2004, Fuchs Petrolub posted organic sales growth of 5.5% in spite of difficult market conditions. The focus on specialties is paying off, with the Company able to continue to deflect the general trend in the sector. Given the negative trend in exchange rates, Q1 sales grew by a nominal 1.3% to € 266.9 m (consolidation: -0.1 of a percentage point). Earnings growth again outpaced sales, a trend which is set to continue. The Group is benefiting from rising volumes and an improved product mix as well as generally good cost management and the advantages of an optimised production structure (concentration of production sites). Q1 EBIT (including net income from equity holdings) climbed 17.3% to € 20.3 m thanks to declining ratios for production costs (62.6%, down from 63.2%) and SG&A (28.1%, down from 28.9%). As a result, the margin widened to 7.6% (Q1 2003: 6.6%) despite higher goodwill amortisation. As net interest expenditure (€ 4.7 m, down from € 6.0 m) has improved as planned and the tax rate for the quarter dropped to 41.0% (Q1 2003: 46.0%), consolidated profit after tax and minority interests came to € 8.9 m (+53.4%).
- Upbeat guidance reaffirmed:** In its Q1 report, the company reaffirmed its guidance for net profit (double-digit growth, although full-year profit will not grow as fast as in Q1, 50.8% to € 9.2 m). As both EBIT (MMWe: € 18.5 m) and the increase in net profit (MMWe: € 7.3 m) exceeded our estimates for Q1, we have raised our projections for 2004-2006. We are now looking for EBIT (including net income from equity holdings) of € 82.5 m (up from € 80.9 m) and net profit of € 36.3 m (+17.5%, from € 34.7 m +12.3%) for 2004. We have lifted our absolute EBIT estimate for fiscal 2005/06 by 3 – 4 % over our previous forecast. We now project growth rates of 29% (2005, also spurred by the absence of goodwill charges) and 5% (2006).
- Target price raised:** The fair value is derived from a DCF model (perpetual growth rate of +1.25%, long-term EBITDA margin of 12.0%, WACC of 7% after tax) and a comparison of the share with alternative investments in the European specialty chemicals segment (discounts of between 15 and 20%). We reiterate our Buy rating and have raised our target price for preference shares from € 77 to € 80.

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MAY 2004

INVESTMENT RESEARCH

**Fuchs Petrolub**

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(Key figures per IAS)

	2001	2002	2003	2004e	2005e	2006e
<b>Income statement (in € m)</b>						
Sales	940.0	1,064.7	1,040.9	1,067.0	1,099.0	1,132.0
Cost of goods	-600.8	-665.1	-653.7	-663.5	-681.0	-700.0
Gross profit	339.2	399.7	387.2	403.5	418.0	432.0
SG&A expenses	-120.0	-133.1	-129.0	-131.0	-134.5	-138.0
R&D expenses	-18.7	-23.6	-22.6	-23.0	-24.0	-25.0
Other oper. income/expenses	-14.3	-20.7	-18.0	-23.2	-5.0	-5.0
EBITDA	87.5	115.2	121.8	124.0	131.5	139.0
Amortization	-11.2	-15.0	-19.3	-18.2	0.0	0.0
Depreciation	-26.9	-30.2	27.3	-23.5	-25.0	-27.0
EBIT	49.5	70.0	75.2	82.3	106.5	112.0
Financial income	-24.6	-26.0	-23.2	-20.8	-18.8	-17.3
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	24.9	44.0	52.0	61.5	87.7	94.7
Income taxes	-16.0	-19.9	-21.1	-25.2	-29.8	-32.2
(Tax rate in %)	-64.5	-45.3	-40.6	-41.0	-34.0	-34.0
Net income	8.8	24.1	30.9	36.3	57.9	62.5
Net income ex minorities	7.8	23.1	29.7	34.8	56.2	60.5
EPS ord.	1.01	3.15	4.03	4.34	7.05	7.60
EPS pref.	1.18	3.32	4.21	4.51	7.25	7.80
<b>Growth (in %)</b>	<b>CAGR (01/06)</b>					
Sales	3.8 %	4.2	13.3	-2.2	2.5	3.0
EBITDA	9.7 %	-6.8	31.6	5.8	1.8	6.0
EBIT	17.8 %	-11.1	41.5	7.4	9.4	29.4
Net income excl. minorities	50.5 %	-53.5	194.8	28.4	17.1	61.5
<b>Cost ratios (in % of sales)</b>						
Cost of goods / sales		63.9	62.5	62.8	62.2	62.0
SG&A / sales		12.8	12.5	12.4	12.3	12.2
R&D / sales		2.0	2.2	2.2	2.2	2.2
<b>Cash flow (in € m)</b>						
Operating cash flow	54.7	85.6	128.2	134.0	96.3	101.9
Capital expenditure	26.4	31.2	19.5	24.0	26.0	27.0
Change in working capital	-6.5	19.0	-11.9	5.3	6.5	6.7
Oper. free cash flow	34.9	35.4	120.7	104.7	63.8	68.2
Cash flow	50.3	76.2	78.9	87.0	94.0	101.7
<b>Productivity (in € ts.)</b>						
Sales / employee	242.8	259.7	248.5	251.1	258.6	263.3
Personnel expense / employee	-41.7	-43.8	-41.0	-40.5	-45.5	-46.4
EBIT / employee	12.8	17.1	18.0	19.4	25.1	26.0
<b>Returns (in %)</b>						
EBITDA / sales	9.3	10.8	11.7	11.6	12.0	12.3
EBIT / sales	5.3	6.6	7.2	7.7	9.7	9.9
Pre-tax profit / sales	2.6	4.1	5.0	5.8	8.0	8.4
Net income / sales	0.8	2.2	2.9	3.3	5.1	5.3
Return on equity	6.8	22.0	22.4	22.5	28.5	25.0
Return on total capital	1.1	3.4	4.7	5.3	8.5	8.8
ROCE	8.6	12.5	15.0	16.9	21.3	21.8
<b>Balance sheet (in € m)</b>						
Property, plant and equipment	195.2	181.0	161.8	155.0	160.0	165.0
Goodwill	126.7	106.1	87.3	73.0	73.0	73.0
Working capital	203.9	222.9	211.0	216.3	222.8	229.5
Current assets	364.7	361.6	363.9	400.5	399.7	421.3
Capital employed (CE)	577.2	560.6	501.5	487.3	500.8	514.5
Shareholders' equity	115.7	105.2	132.5	154.4	196.9	242.4
Equity ratio in %	16.1	15.5	20.8	23.6	29.8	35.2
Net debt (+), net liquidity (-)	348.5	305.0	209.9	169.8	136.7	101.5
Gearing in %	301.3	290.0	158.4	110.0	69.4	41.9
<b>Valuation</b>						
				<b>Price ord. at May 14, 2004: € 63.30</b>		
				<b>Price pref. at May 14, 2004: € 57.61</b>		
EPS ord. (€)	1.01	3.15	4.03	4.34	7.05	7.60
EPS pref. (€)	1.18	3.32	4.21	4.51	7.25	7.80
CFPS (€)	7.02	10.64	10.93	11.07	11.96	12.94
Number of shares ord., (m)	3.6	3.6	3.7	3.9	3.9	3.9
Number of shares pref., (m)	3.5	3.5	3.5	3.9	3.9	3.9
P/E ord.	20.6	6.9	8.9	14.6	9.0	8.3
P/E pref.	17.3	6.7	7.8	12.8	7.9	7.4
P/CF	3.0	2.0	3.3	5.7	5.3	4.9
EV / Sales	0.46	0.37	0.38	0.55	0.50	0.46
EV / EBITDA	4.9	3.4	3.3	4.7	4.2	3.7
EV / EBIT	8.7	5.6	5.3	7.1	5.2	4.6