

Recommendation:  
**BUY** (BUY)

Risk:  
**HIGH** (HIGH)

Fair Value:  
**EUR 5.42** (5.71)

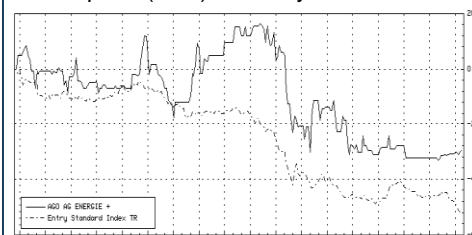
27 February 2009

## Strong margin increase in FY2008

### Appealing figures, but too ambitious forecasts

- On 25 February, AGO published preliminary figures for FY2008. EBIT reached EUR 1.5m, yielding an EBIT margin of approx. 4.1%. Compared to the adjusted FY2007 EBIT (EUR 0.7m excluding one-off effects in the amount of EUR 1.0m), this is an increase of 107%. The EBIT figure is still in line with the management's expectations, but below our previous estimate (EUR 2.1m).
- The preliminary sales figure is EUR 36.6m (2007: EUR 41.3m), representing a y-o-y decrease of 11.5%. The management's guidance had been >EUR 40m, while our forecast had been EUR 46.6m. In our latest report, we already pointed out that our sales forecasts for FY 2008 had become too ambitious in view of the 9M figures. Nevertheless, we left it unchanged as we still felt fine with our profit estimates which are more relevant for the valuation of the company.
- At the end of 2008, AGO had an order backlog of EUR 28.3m. This is 105% more than in the year before. In January 2009, incoming orders were EUR 4m to 5m.
- On the one hand, the unfavourable macro environment might cast some shadows on AGO's business this year. On the other hand, we identified several factors (besides the extremely promising order backlog) which suggest that AGO will not be seriously affected by the crisis.
- In spite of these favourable factors, we believe that our forecasts for 2009E and 2010E are too high by now in view of the economic development, even though we generally remain very positive for the company. We therefore revised our estimates downwards.
- Our revised valuation results in a fair value per share of EUR 5.42 (old: EUR 5.71). We maintain our BUY recommendation.

#### Share price (dark) vs. Entry Standard Index



Sources: CBS Research AG, Bloomberg, AGO AG

Change	2008E		2009E		2010E	
	new	old	new	old	new	old
Sales	36.6	46.6	40.1	52.7	48.9	58.9
EBITDA	2.3	3.1	3.3	4.8	4.4	5.6
EPS	0.10	0.25	0.22	0.51	0.36	0.63

Internet: [www.ago.ag](http://www.ago.ag)  
WKN: A0LR41  
Reuters: AGYG.DE

Sector: Industrial  
ISIN: DE000A0LR415  
Bloomberg: AGY GY

#### Share data:

Share price (EUR, closing price 26/02/2008):	3.02
Shares outstanding (m):	4.0
Market capitalisation (EURm):	12.1
Enterprise value (EURm):	17.0
Ø daily trading volume (6 m., no. of shares):	1,006

#### Performance data:

High 52 weeks (EUR):	5.00
Low 52 weeks (EUR):	2.75
Absolute performance (6 months):	-29.6%
Relative performance (vs. Entry Standard Index):	
1 month	17.2%
3 months	9.2%
6 months	8.6%
12 months	49.9%

#### Shareholders:

Caverion GmbH:	59.2%
Management:	5.5%
Supervisory board:	3.4%
Free float:	31.9%

#### Financial calendar:

Annual report 2008:	May 2009
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#### Key data

Y/E 31.12., EUR m	2006	2007	2008(E)	2009E	2010E
Sales revenues	33.9	41.3	36.6	40.1	48.9
Gross profit	3.5	1.9	3.9	4.8	6.0
EBITDA	1.6	0.5	2.3	3.3	4.4
EBIT	1.4	-0.3	1.5	2.2	3.1
Net income/loss	0.4	-0.9	0.4	0.9	1.4
EPS*	1.06	-0.26	0.10	0.22	0.36
CPS*	-0.60	-1.15	0.13	0.34	0.56
DPS	0.00	0.00	0.00	0.00	0.00
Gross margin	10.4%	4.5%	10.6%	12.0%	12.2%
EBITDA margin	4.7%	1.1%	6.4%	8.2%	9.0%
EBIT margin	4.0%	-0.6%	4.1%	5.4%	6.4%
EV/EBITDA	10.8	36.7	7.3	5.2	3.9
EV/EBIT	12.5	neg.	11.4	7.9	5.4
P/E	2.9	neg.	31.8	13.5	8.4

Source: CBS Research AG, AGO AG

\*EPS and CPS only from continuing operations

## Preliminary FY2008 figures

On 25 February, AGO published preliminary figures for FY 2008. The preliminary sales figure is EUR 36.6m (2007: EUR 41.3m), representing a y-o-y decrease of 11.5%. The management's guidance had been >EUR 40m, while our forecast had been EUR 46.6m. In our latest report, we already pointed out that our sales forecasts for FY 2008 had become too ambitious in view of the 9M figures. Nevertheless, we left it unchanged as we still felt fine with our profit estimates which are more relevant for the valuation of the company.

Reasons for the sales development were:

- Postponements of orders. In particular, the PoC realisation of one large order volume of EUR 5m from a client based in Baden-Württemberg was shifted to 2009.
- Fading demand from the automotive industry which is an important customer segment of AGO.

EBIT for FY2008 were in line with the latest expectations of the management as they reached EUR 1.5m, yielding an EBIT margin of approx. 4.1%. Compared to the adjusted FY2007 EBIT (EUR 0.7m excluding one-off effects in the amount of EUR 1.0m), this is an increase of 107%. Without considering our own (too ambitious) EBIT forecast which was EUR 2.1m for FY 2008, we regard FY2008 as a successful year for AGO.

## Forecasts

In 2009, the unfavourable macro environment might cast some shadows on AGO's business outlook:

- The credit crisis affects the financing possibilities of many companies.
- A recession implicates
  - limited investment ability of AGO's business clients;
  - falling energy demand and prices resulting in less demand for more efficient power plants and also for biomass heat and power plants;
  - the drive for climate issues potentially being eclipsed by economic concerns, even though there is still no indication for such a development.

Nevertheless, there are a number of aspects in AGO's business model which suggest that the company will be much less affected by the crisis than one might expect, and that AGO will certainly show an excellent development in times of economic recuperation:

- Many small SME's (small & medium enterprises) on AGO's customer list which should be less affected by the credit crisis, as small plants for these clients can normally be financed with the local savings banks.
- The customer portfolio is now more diversified than it was in the past and includes also clients from non-cyclical industries, e.g. the food industry.
- With its broad product portfolio, AGO can meet all kinds of demand from many different customer segments. For example, AGO is still supplying conventional block heat and power plants to utilities. Since 2007, demand for these plants has returned on a low level and accounts for a small but non-cyclical sales volume.
- Fiscal stimulus packages could result in orders from municipal utilities.

**Sales fell short of forecasts...**

**...but profitability increased significantly**

**Threads from unfavourable macro environment...**

**...will not necessarily do much harm to AGO's business**

- Doubts in many companies regarding the security of supply with gas from Russia have increased due to the latest gas transit dispute. Biomass plants are a possibility to become independent from gas.
- Joint Implementation (JI) projects should not be affected by recession. With an own JI program for SME's in the field of biomass plants, AGO is the precursor for such projects in Germany.
- Activities in Italy (plant operation) make good progress.
- Politics on EU and national level continue to create a very favourable legal framework for biomass heat and power plants.

At the end of 2008, order backlog was EUR 28.3m. This is 105% more than in the year before. According to AGO's CEO, Hans Ulrich Gruber, all of these orders are supposed to turn into sales revenues by the end of this year except for a volume of EUR 3m to 4m from the Italian greenfield project which requires a longer lead time. So far Mr Gruber finds no indication that any of these backlogged orders will be cancelled or postponed to the next year. In January, the additional order intake was EUR 4m to 5m.

On 31 December 2008, AGO held a strong cash position of EUR 7.7m. No short-term refinancing is scheduled for 2009E.

In spite of all the above mentioned favourable factors, we believe that our forecasts for 2009E and 2010E are too high by now in view of the economic development, even though we generally remain positive for the company. We revised our forecasts as shown in the table below. For 2008E, only the sales and EBIT figures are reported actual figures on a preliminary basis while the rest of the figures are still CBSR estimates.

### Forecast changes

	2008(E)		2009E		2010E	
	new	old	new	old	new	old
Sales	36.6	46.6	40.1	52.7	48.9	58.9
Gross profit	3.9	4.7	4.8	6.3	6.0	7.2
EBITDA	2.3	3.1	3.3	4.8	4.4	5.6
EBIT	1.5	2.1	2.2	3.6	3.1	4.3
Net result after minorities	0.4	1.0	0.9	2.0	1.4	2.5

Source: Source: CBS Research AG, AGO AG

After the release of the annual report 2008, we will publish a new update report with more detailed and annotated forecasts.

## Valuation and conclusion

For our latest valuation of AGO, we had applied a multiple valuation on basis of a peer group and a Discounted Cash Flow (DCF) model to derive the company's fair value. As there is no listed company which is fully comparable with AGO, we had chosen two companies (Thenergo and MVV Energie AG) which only partially reflect AGO's business model. By now, the peer group valuation has become even more problematic since the profitability of Thenergo is not developing similarly to AGO's profitability. Thenergo will presumably post a net loss for FY 2008E, according to

**Very high order backlog**

**Solid liquidity situation**

**We revise our estimates**

**Peer group valuation is not applicable anymore**

analysts' forecasts. With a peer group of only two companies, the resulting distortion is too high. For this reason, we abandon the peer group valuation and centre on the DCF valuation. Nevertheless, we additionally calculate and display the multiples resulting from our fair value.

We incorporated our new free cash flow estimates for AGO in our DCF model. For the years after 2010E, we assumed a more conservative sales growth and lower EBIT margins than in our latest update. To be even more cautious, we reduced the growth rate for the terminal value to 0% (old: 2%). We also adjusted our basic assumptions for the WACC calculation to the declined interest level as well as to the statistic long-term yields of the stock market. In our last valuation of AGO (21/11/2008), we had used a risk free rate of 4.5% and a rather high equity risk premium of 8.0%. Both rates are excessively too high by now and would understate the fair value derived by the DCF model. We therefore changed the assumed risk free rate to 3.5% and the equity risk premium to 6.0%. These assumptions result in a new WACC rate (weighted average cost of capital) of 9.45%.

### DCF model: Revised assumptions

### Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	∞
Sales	40.1	48.9	53.0	56.9	60.9	64.9	68.8	72.5	76.2	77.7	
Sales growth	9.6%	21.8%	8.4%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	2.0%	
EBIT	2.2	3.1	4.0	4.0	4.3	4.5	4.8	5.1	5.3	5.4	
EBIT margin	5.4%	6.4%	7.5%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Income tax on EBIT	-0.7	-1.0	-1.3	-1.3	-1.4	-1.5	-1.6	-1.7	-1.8	-1.8	
Depreciation and amortisation	1.1	1.3	1.3	1.3	1.4	1.5	1.6	1.6	1.7	1.7	
Change in long-term provisions	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital	-0.8	-1.1	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.7	-0.3	
Net capital expenditure	-1.3	-1.5	-1.7	-1.9	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	
<b>Free cash flow</b>	<b>0.5</b>	<b>0.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.9</b>	<b>3.4</b>	
<b>Present values</b>	<b>0.5</b>	<b>0.6</b>	<b>1.1</b>	<b>0.9</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>14.4</b>
Present value Phase 1	2.3										
Present value Phase 2	8.3										
Present value Phase 3	14.4										
Total present value	25.0										
+ Excess cash/Non-operating assets	7.7										
- Financial debt	-10.7										
- Minority interest (est. market value)	-0.3										
<b>Fair value of equity</b>	<b>21.7</b>										
Number of shares (m)	4.0										
<b>Fair value per share (EUR)</b>	<b>5.42</b>										

Risk free rate	3.50%	Target equity ratio	75.0%
Equity risk premium	6.00%	Beta (fundamental)	1.24
Debt risk premium	4.00%	<b>WACC</b>	<b>9.45%</b>
Tax shield	33.4%	<b>Terminal growth</b>	<b>0.0%</b>

Sensitivity analysis						
Terminal growth (Phase 3)						
		-1.0%	-0.5%	0.0%	0.5%	1.0%
<b>WACC</b>	<b>8.5%</b>	5.92	6.16	6.43	6.73	7.07
	<b>9.0%</b>	5.46	5.66	5.89	6.15	6.44
	<b>9.5%</b>	5.04	5.22	<b>5.42</b>	5.64	5.89
	<b>10.0%</b>	4.67	4.83	5.00	5.19	5.40
	<b>10.5%</b>	4.34	4.47	4.62	4.78	4.96

Source: CBS Research AG

Our DCF model yields a fair value of the operating business in the amount of EUR 25.0m. We deducted AGO's net financial debt. The resulting fair value of equity is EUR 21.7m. The fair value per share amounts to EUR 5.42.

**New fair value per share is EUR 5.42**

On basis of this fair value and our positive assessment of AGO's strategic positioning and business perspective, we reiterate our BUY recommendation.

**BUY**

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BUY: the expected performance of the share price is above +10%.

NEUTRAL: The expected performance of the share price trend is between +5% and +10%.

SELL: The expected performance of the share price is below 5%.

Recommendation history for the company analyzed in this report:

Date	Recommendation	Price at change date	Fair Value
May 19, 2008	Buy (Initiating Coverage)	3.99	EUR 5.71
May 30, 2008	Buy	4.00	EUR 5.71
August 19, 2008	Buy	4.70	EUR 5.71
November 21, 2008	Buy	3.57	EUR 5.71
February 27, 2009	Buy	3.02	EUR 5.42

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HIGH: volatility is expected higher than the volatility of the benchmark

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