

Recommendation: **BUY** (BUY) Risk: **HIGH** (HIGH) Price target: **EUR 3.20** (3.40)

17 June 2011

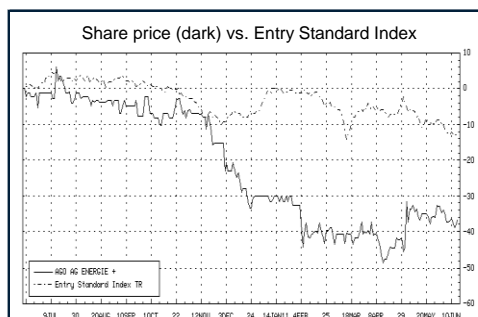
Plant construction business is booming – Plant Operation in Italy is abandoned

YIT to sell its majority stake to Perseus

- AGO's quarterly report confirmed the strong preliminary 1Q figures (see Appendix). AGO reported a high level of capacity utilisation with natural gas-powered CHP units and gas turbines, and also currently registers a rise in project margins. The moderate development of natural gas prices in comparison to electricity prices had already spurred demand for these products in recent years. The political 'energy turnaround' in Germany should result in further strong demand not only from municipal utilities but also from industrial clients. We slightly increased our estimates for 2011E-2013.
- While AGO's original core business is booming, AGO seems to be backpedalling in its Plant Operation division. On 7 June 2011, AGO AG sold its 55% share in AGO energia S.r.l., Turin, to its Italian partner for an undisclosed amount. We guess that the high funding requirements, the significant absorption of management capacities in the search for investors, as well as a recent lack of support of the own plant operation strategy from the new major shareholder have resulted in the decision to abandon Plant Operation and concentrate on the booming Project Development & Implementation segment for the time being. We assume that the deconsolidation of AGO energia will result in a significant improvement of AGO's equity ratio (12.9% at the end of 1Q) in 2Q 2011 but also in a negative result from discontinued operations in FY 2011.
- YIT recently announced that it will sell its entire stake (59.25%) in AGO AG to Perseus L.L.C. Approval from the competition regulators is still pending. We had already anticipated such a development in our previous updates on AGO. We note that Perseus already has two companies in its portfolio which are active in the field of CHP plants: SEVA Energie AG and Pro2. We do not want to give rise to any hasty speculation, but we note that AGO's product range (large-scale CHP plants, process cooling, etc.) as well as AGO's customer structure (e.g. public utilities) seem rather complementary with those of SEVA and Pro2.
- We do not expect any significant investments in own plants and corresponding increases in revenues from the plant operation business anymore. Since this business was supposed to yield higher margins than AGO's plant construction business, we lower our long-term margin estimates for the years after 2013. We change our price target for the share from EUR 3.40 to EUR 3.20. We maintain our BUY recommendation.

Y/E 31 Dec, EUR m	2009	2010	2011E	2012E	2013E
Sales revenues	50.3	52.8	68.3	73.1	77.5
EBIT	1.7	-8.0	1.2	2.9	3.4
Net income/loss	0.2	-8.3	-0.1	1.4	1.7
EPS	0.06	-2.07	-0.02	0.35	0.42
CPS	1.90	0.08	-0.64	0.59	0.71
Gross margin	10.3%	4.4%	7.2%	9.2%	9.5%
Adj. EBIT margin	3.3%	-15.1%	1.8%	4.0%	4.3%
EV/EBIT	10.2	-2.1	13.6	5.8	5.0
P/E	46.2	n.m.	n.m.	7.9	6.6

Source: CBS Research AG, AGO AG Energie + Anlagen



Source: CBS Research AG, Bloomberg, AGO AG

Change	2011E		2012E		2013E	
	new	old	new	old	new	old
Sales	68.3	66.2	73.1	70.2	77.5	74.4
EBITDA	2.4	2.1	4.1	3.6	4.6	4.3
EPS	-0.02	0.04	0.35	0.25	0.42	0.31

Internet: www.ago.ag Sector: Industrial
WKN: A0LR41 ISIN: DE000A0LR415
Reuters: AGY.GE Bloomberg: AGY GY

Short company profile:

AGO AG Energie + Anlagen, headquartered in Kulmbach/Germany, is a specialist in the area of innovative and efficient energy supply and facilities. AGO AG concentrates on the three business segments project development and implementation, operation of facilities as well as service & consulting. The company's core competences are mainly biomass cogeneration plants, cogeneration plants, heat and refrigeration plants, trigeneration as well as contracting. Location studies / location development, energy efficiency consulting, raw material and fuel management as well as emissions trading round off the business model.

Share data:

Share price (EUR, latest closing price):	2.739
Shares outstanding (m):	4.0
Market capitalisation (EUR m):	11.0
Enterprise value (EUR m):	17.0
Ø daily trading volume (6 m., no. of shares):	4,306

Performance data:

High 52 weeks (EUR):	4.57
Low 52 weeks (EUR):	1.85
Absolute performance (12 months):	-36.3%
Relative performance vs. Entry Standard Index:	
1 month	1.4%
3 months	8.9%
6 months	-6.0%
12 months	-26.4%

Shareholders:

YIT Germany GmbH*	59.25%
Management:	5.26%
Supervisory board:	3.08%
Free float:	32.41%

*sale of the stake of YIT to Perseus still pending

Financial calendar:

Annual General Meeting:	30 June 2011
2Q 2011 report:	August 2011

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Appendix

1Q key data and YoY comparison

IFRS	EUR 1,000	1Q 2011	1Q 2010
Sales			
		17,375	13,032
	YoY growth	33.3%	79.9%
Gross profit			
		779	-262
	as % of sales	4.5%	-2.0%
EBITDA			
		263	-800
	as % of sales	1.5%	-6.1%
EBIT			
		0	-1,063
	as % of sales	0.0%	-8.2%
Net income attributable to shareholders			
		0	-852
EPS (EUR)			
		0.00	-0.21
Cash flow from operating activities			
		-4,675	-5,320
Free cash flow			
		-4,725	-5,434
Cash and cash equivalents			
		5,353	5,577
Financial debt			
		11,302	11,904
Equity ratio			
		12.9%	28.1%

Source: AGO AG Energie + Anlagen, CBS Research AG

Profit and loss account

	IFRS	EUR 1,000	2008	2009	2010	2011E	2012E	2013E
Sales			36,697	50,287	52,831	68,300	73,081	77,466
YoY growth			-11.2%	37.0%	5.1%	29.3%	7.0%	6.0%
Cost of sales			-32,543	-45,118	-50,525	-63,382	-66,358	-70,107
as % of sales			-88.7%	-89.7%	-95.6%	-92.8%	-90.8%	-90.5%
Gross profit			4,154	5,169	2,306	4,918	6,723	7,359
as % of sales			11.3%	10.3%	4.4%	7.2%	9.2%	9.5%
Research and development expenses			-174	-205	-142	-102	-110	-116
as % of sales			-0.5%	-0.4%	-0.3%	-0.2%	-0.2%	-0.2%
Selling expenses			-2,118	-2,580	-2,826	-2,472	-2,631	-2,789
as % of sales			-5.8%	-5.1%	-5.3%	-3.6%	-3.6%	-3.6%
General and administrative expenses			-692	-1,005	-880	-1,025	-1,096	-1,146
as % of sales			-1.9%	-2.0%	-1.7%	-1.5%	-1.5%	-1.5%
Other operating income			551	939	727	410	438	465
as % of sales			1.5%	1.9%	1.4%	0.6%	0.6%	0.6%
Other operating expenses*			-147	-645	-1,847	-423	-453	-488
as % of sales			-0.4%	-1.3%	-3.5%	-0.6%	-0.6%	-0.6%
Extraordinary impairment loss from PP&E			0.0	0.0	-5,292.0	0.0	0.0	0.0
as % of sales			0.0%	0.0%	-10.0%	0.0%	0.0%	0.0%
EBIT as reported			1,574	1,673	-7,954	1,305	2,872	3,285
as % of sales			4.3%	3.3%	-15.1%	1.9%	3.9%	4.2%
Income from equity consolidated affiliates			-1	-11	-42	-57	50	80
EBIT incl. income from equity consolidated affiliates			1,573	1,662	-7,996	1,248	2,922	3,365
as % of sales			4.3%	3.3%	-15.1%	1.8%	4.0%	4.3%
Net interest income/expense			-529	-675	-808	-754	-787	-818
EBT (Earnings before income taxes)			1,044	987	-8,804	494	2,135	2,547
as % of sales			2.8%	2.0%	-16.7%	0.7%	2.9%	3.3%
Income taxes			-458	-716	495	-144	-622	-742
as % of EBT			-43.9%	-72.5%	-5.6%	-29.1%	-29.1%	-29.1%
Income from continuing operations			586	271	-8,309	350	1,513	1,805
Income from discontinued operations, net of taxes*			31	0	0	-700	0	0
Group net income including minorities			617	271	-8,309	-350	1,513	1,805
as % of sales			1.7%	0.5%	-15.7%	-0.5%	2.1%	2.3%
Minority interests			21	-34	36	290	-130	-135
Net income attributable to shareholders			638	237	-8,273	-60	1,383	1,670
Shares outstanding (in thousands)			4,000	4,000	4,000	4,000	4,000	4,000
Basic earnings per share (EUR)			0.16	0.06	-2.07	-0.02	0.35	0.42

*We assume that AGO energia S.r.l. will be treated as a discontinued operation in FY 2011. In lack of the necessary information, we still show the previous years' figures without a corresponding adjustment.

Source: CBS Research AG, AGO AG Energie + Anlagen

Balance sheet

	IFRS	EUR 1,000	2008	2009	2010	2011E	2012E	2013E
Assets								
Noncurrent assets			16,928	18,052	11,844	12,069	11,711	11,420
as % of total assets			44.5%	41.6%	32.1%	38.9%	35.2%	33.9%
Intangible assets			275	639	534	631	687	725
Property, plant and equipment			14,442	14,361	8,451	8,286	7,950	7,580
Financial assets			2,043	2,922	2,436	2,873	2,923	3,003
Other non-current assets			0	0	0	0	0	0
Deferred taxes			168	130	423	279	152	112
Current assets			21,110	25,330	25,064	18,995	21,538	22,314
as % of total assets			55.5%	58.4%	67.9%	61.1%	64.8%	66.1%
Inventories and prepayments			482	1,610	4,475	1,981	2,339	2,479
Receivables from contract manufacturing (PoC)			4,805	5,423	5,115	5,656	6,103	6,734
Trade accounts receivable			7,052	5,543	3,321	4,678	5,206	5,730
Receivables from affiliated companies			0	1,600	1,600	0	0	0
Other assets			1,092	886	676	820	877	930
Cash and cash equivalents			7,679	10,268	9,877	5,860	7,014	6,442
Total assets			38,038	43,382	36,908	31,064	33,250	33,734
Shareholders' equity and liabilities								
Shareholders' equity			13,043	13,116	4,851	4,501	6,014	7,819
as % of total equity and liabilities			34.3%	30.2%	13.1%	14.5%	18.1%	23.2%
Capital stock			4,000	4,000	4,000	4,000	4,000	4,000
Capital reserve			8,146	8,146	8,146	8,146	8,146	8,146
Retained earnings			656	855	-7,389	-7,449	-6,066	-4,396
Currency translation reserve			0	5	19	19	19	19
Equity attributable to minority interest			241	110	75	-215	-85	50
Noncurrent liabilities			11,473	11,140	9,924	9,006	8,757	6,304
as % of total equity and liabilities			30.2%	25.7%	26.9%	29.0%	26.3%	18.7%
Provisions for pensions			215	222	229	238	247	256
Other noncurrent provisions			471	500	494	510	540	550
Noncurrent financial liabilities			10,068	9,152	8,310	7,292	6,992	4,500
- of which bearer bonds payables			2,462	2,474	2,492	2,492	2,492	0
Other noncurrent liabilities			14	4	0	0	0	0
Deferred tax liabilities			705	1,262	891	966	978	998
Current liabilities			13,522	19,126	22,133	17,557	18,479	19,611
as % of total equity and liabilities			35.5%	44.1%	60.0%	56.5%	55.6%	58.1%
Tax provisions and other provisions			123	150	127	127	259	483
Trade accounts payable and rec. advance payments			6,603	7,142	9,088	10,141	10,617	11,217
Liabilities from build-to-order contracts			1,395	6,299	4,568	2,120	2,233	2,358
Financial liabilities (to banks)			2,069	1,980	2,790	2,300	2,300	2,300
Liabilities to affiliated companies			0	0	2,545	0	0	0
Other liabilities incl. liabilities from taxes			3,332	3,555	3,015	2,869	3,069	3,254
Total equity and liabilities			38,038	43,382	36,908	31,064	33,250	33,734

Source: CBS Research AG, AGO AG Energie + Anlagen

Cash flow statement

	IFRS	EUR 1,000	2008	2009	2010	2011E	2012E	2013E
Income/loss before interest and taxes			1,617	1,673	-7,996	260	2,922	3,365
Cash taxes paid			-212	-102	85	363	-483	-682
Interests paid and received			-529	-654	-759	-754	-787	-818
Depreciation and amortization			820	940	6,606	1,116	1,190	1,267
Income from equity consolidated affiliates			1	11	37	57	-50	-80
Change in accruals incl. pension provisions			-50	75	-22	25	171	242
Other expenses / income with no effect on liquidity			0	-163	506	0	0	0
Income/losses on retirements of noncurrent assets			-18	-2	-6	0	0	0
Increase/decrease in inventories, trade receivables, and other assets			51	616	2,420	453	-1,389	-1,349
Increase/decrease in trade accounts payable and other liabilities			378	5,207	-541	-4,086	790	909
Cash flow from operating activities			2,058	7,601	330	-2,567	2,364	2,854
Net cash outflows from the purchase and retirement of noncurrent assets			-1,409	-932	-1,111	-1,047	-910	-935
Investments within short-term cash management (loan receivables due from associated company)			0	-1,600	0	1,600	0	0
Purchase/sale of noncurrent financial assets			-90	-920	533	-557	0	0
Investments in non-current assets			0	-286	-90	63	0	0
Purchase of consolidated companies			0	-60	0	0	0	0
Cash flow from investing activities			-1,499	-3,798	-668	59	-910	-935
Net cash inflow from capital stock increases			0	0	0	0	0	0
Cash inflow from minority interests in shareholders' equity of consolidated subsidiaries			46	0	0	0	0	0
Purchase/sale of shares in fully consolidated subsidiaries			0	-167	0	0	0	0
Net borrowings/retirements of debt			1,518	-1,047	-53	-1,508	-300	-2,492
Cash flow from financing activities			1,564	-1,214	-53	-1,508	-300	-2,492
Total change in cash and cash equivalents			2,123	2,589	-391	-4,017	1,154	-573
Cash and cash equiv. at the start of the period			5,556	7,679	10,268	9,877	5,860	7,014
Cash and cash equiv. at the end of the period			7,679	10,268	9,877	5,860	7,014	6,442

Source: CBS Research AG, AGO AG Energie + Anlagen

Discounted Cash Flow Model

EURm	PHASE 1			PHASE 2						PHASE 3	
	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	∞
Sales	68.3	73.1	77.5	81.3	85.4	89.7	93.3	96.5	99.4	101.4	
Sales growth	29.3%	7.0%	6.0%	5.0%	5.0%	5.0%	4.0%	3.5%	3.0%	2.0%	
EBIT incl. income from equity consolidate	1.2	2.9	3.4	3.5	3.7	3.9	4.0	4.2	4.3	4.4	
EBIT margin	1.8%	4.0%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	
Income tax on EBIT	-0.4	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	
Depreciation and amortisation	1.1	1.2	1.3	1.3	1.2	0.9	0.8	0.8	0.9	-0.9	
Change in long-term provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in net working capital*	-1.8	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	
Net capital expenditure**	-1.6	-0.9	-0.9	-0.9	-1.0	-0.9	-1.0	-0.8	-0.9	-0.9	
Free cash flow	-1.4	2.1	2.6	2.6	2.5	2.4	2.4	2.7	2.8	1.3	
Present values	-1.3	1.8	2.0	1.9	1.7	1.4	1.3	1.3	1.3	0.5	7.1
Present value Phase 1	2.5										
Present value Phase 2	9.3										
Present value Phase 3	7.1										
Total present value	18.9										
+ Cash and non-operating assets	5.4										
- Financial debt	-11.3										
- Minority interest	-0.1										
Fair value of equity	12.9										
Number of shares (m)	4.0										
Fair value per share (EUR)	3.22										

Risk free rate	3.5%	Target equity ratio	75.0%
Equity risk premium	6.0%	Beta (fundamental)	1.25
Debt risk premium	3.0%	WACC	9.4%
Tax shield	29.1%	Terminal growth	2.0%

Sensitivity analysis						
		Terminal growth (Phase 3)				
		1.0%	1.5%	2.0%	2.5%	3.0%
8.42%		3.54	3.69	3.87	4.07	4.31
8.92%		3.25	3.38	3.52	3.69	3.88
9.42%	WACC	3.00	3.10	3.22	3.36	3.52
9.92%		2.76	2.85	2.95	3.07	3.20
10.42%		2.55	2.63	2.72	2.81	2.92

*Including changes in current loan receivables totalling EUR 1.6m due from Pellerei AGO Energia Societa Agricola S.r.l. which are included in cash flow from investment activities in the cash flow statement.

**Net capital expenditure includes investments in certain financial assets (at equity consolidated companies) which we classify as operating assets as we include the income from these assets (income from equity consolidated affiliates or other participations) in our EBIT estimates for valuation purposes.

Source: CBS Research AG

Research



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Recommendation System:

Close Brothers Seydler Research AG uses a 3-level absolute share rating system. The ratings pertain to a time horizon of up to 6 months:

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

HOLD: The expected performance of the share price is between 0% and +10%.

SELL: The expected performance of the share price is below 0%.

Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
2 June 2010	Buy	4.50	EUR 5.10
3 September 2010	HOLD	4.15	EUR 4.50
22 December 2010	BUY	3.099	EUR 3.50
2 Mai 2011	BUY	2.50	EUR 3.40
17 Juni 2011	BUY	2.739	EUR 3.20

Risk-scaling System:

Close Brothers Seydler Research AG uses a 3-level risk-scaling system. The ratings pertain to a time horizon of up to 6 months:

LOW: The volatility is expected to be lower than the volatility of the benchmark

MEDIUM: The volatility is expected to be equal to the volatility of the benchmark

HIGH: The volatility is expected to be higher than the volatility of the benchmark

The following valuation methods are used when valuing companies: Multiplier models (price/earnings, price/cash flow, price/book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer group comparisons, historical valuation approaches, discounting models (DCF, DDM), break-up value approaches or asset valuation approaches. The valuation models are dependent upon macroeconomic measures such as interest, currencies, raw materials and assumptions concerning the economy. In addition, market moods influence the valuation of companies.

The figures taken from the income statement, the cash flow statement and the balance sheet upon which the evaluation of companies is based are estimates referring to given dates and therefore subject to risks.

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