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Pan Euro Small & Mid Cap Sales Team 1st XI for 2009

Malcolm Bushby
(44) 207 547 4637
malcolm.bushby@db.com

Anjool Malde
(44) 207 547 6063
anjool.malde@db.com

Martin Schuette
(49) 69 910 34575
martin.schuette@db.com

Philip Taylor
(44) 207 547 6219
philip.taylor@db.com

Introduction

In January 2008 we published our 1st XI portfolio, a list of 11 small/mid cap ideas chosen by the Small & Mid Cap Sales team. During 2008 we made a number of changes to the portfolio with the result that it consistently outperformed the benchmark throughout the year, and is currently +5.2% ahead.

We look to continue this portfolio by announcing our list for 2009 with 10 out of 11 new names. We will again look to make changes through the year as we think necessary but without excessive churn.

As we enter a challenging 2009 with few positive certainties, we have stuck with a similar mix of defensive, cyclical and growth ideas presented around some themes; in all cases, we have looked for strong balance sheets. We have mainly taken a bottom-up approach and believe that the list offers a mix of resilient earnings streams with the potential for upgrades (or re-ratings).

From a top-down point of view we have identified five trends/themes which should give a degree of earnings protection -

- Utilities / government spend (Bilfinger Berger, Northumbrian Water, Serco)
- Healthcare / Pharma (Galenica)
- Online migration (CTS Eventim, Playtech)
- Consolidating end markets (Campari, HMV, CTS Eventim, Gemalto)
- Strong balance sheet (Bilfinger, CTS, Gemalto, Playtech and Schindler are all net cash)

Stock Picks

Bilfinger Berger	Germany	Building & construction with high services element
Campari	Italy	International beverages producer / distributor
CTS Eventim	Germany	Ticketing & live entertainment
Galenica	Switzerland	Diversified pharmaceutical group, specialising in iron therapy
Gemalto	France	Global smart card leader
HMV	UK	Retail – music, DVDs, games, books
Northumbrian Water	UK	Regulated water utility
Playtech	UK	Online gaming software provider
Schindler	Switzerland	Global elevators & lifts, manufacturing / services
Serco	UK	3rd party outsourcer for national & local government
Temenos	Switzerland	Universal banking software provider

The pages below incorporate our sales view and the research valuation tables.
All stated recommendations and price targets are from the analysts.
For the official DB Global Markets Research site please visit http://gm.db.com.

BILFINGER BERGER

Buy (TP €46, 36% upside) **Analyst** michael.kuhn@db.com / +49 69 910 36642
Bloomberg GBF.GY **Mkt cap** €1.2bn **Liquidity** ~€18m/day

What they do

Bilfinger Berger AG is a well-balanced, diverse multi-service company. It has transformed itself since 2000 from a construction company with various non-core assets into a multi-service group with a more diverse international mix. ~50% of sales are generated in the two construction divisions (Civil and Building/Industrial), with the remaining 50% coming from the services divisions. Due to their higher profitability, the services divisions generate three quarters of the group's operating earnings.

The buy case

- As said, three quarters of operating earnings are generated in the Services division, which is significantly less cyclical than the inherited construction business. Power Services are not cyclical at all and maintenance vs. capex work 50:50. The Facility Services could be hit from the financial crisis to a certain extent (30% of clients are banks/insurance firms); 100% maintenance work.

- Management has changed its approach for the construction division over the last few months, now intending to systematically shrink it (first significant step is the disposal of French construction subsidiary Razel).

- Even after significant acquisition activities, the company still had zero net debt in Q3-08; the Razel disposal will improve net cash by c€100m and there are no significant refinancing needs in 2009.

- With construction volumes of ~€3.5bn in infrastructure and ~€2bn in building, the company could benefit from worldwide economic stimulus packages.

- Furthermore we expect further synergies from the integration of the recent acquisitions of service companies which should help to partly compensate the negative effects from the economic downturn.

We think that the difficult environment should provide good opportunities for further acquisitions at attractive prices and we believe that Bilfinger Berger should have firepower for another ~€400m EV of acquisitions.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	6.6	7.5	7.3
EV/EBITDA	3.6	3.4	3.4
EV/EBIT	5.4	5.2	5.2
Net Cash (€m)	401	373	354
FCF Yield (%)	12.8	13.3	13.8
Dividend Yield (%)	6.8	6.8	6.8

Compared to pure support service companies Bilfinger's valuation trades at a discount of around 40-50%; we assume the valuation gap will be closed over the next years.

Risks

We see the main risk in problems with construction projects and the inability to acquire further concessions projects and service companies to fuel growth. The capital involvement in the construction business is low, but since it is a contract business, the risk profile is relatively high. The Industrial Services sub-division should be hit in the economic downturn. Most cyclical Services division; Oil & Gas business (oil rigs, pipelines, refineries etc.) should be relatively stable; chemical industry clients will likely suffer, but plant shutdowns and overhaul/maintenance activities will likely generate extra work over the upcoming months; maintenance vs. capex work 90:10.

For full details on the analyst recommendation, estimates and research disclosures, please see this Bilfinger Berger note from the DB Global Markets Research site: http://tinyurl.com/bilfinger-11nov08

CAMPARI

Buy (TP €8.80, 101% upside) **Analyst** jonathan.fell@db.com / +44 207 545 0251
Bloomberg CPR.IM **Mkt cap** €1.3bn **Liquidity** ~€2.5m/day

What they do

Davide Campari-Milano SpA is a global drinks company with spirits, wines and soft drinks brands including Campari, Cinzano, Skyy Vodka and GlenGrant.

The buy case

- Campari owns strong brands which should have long term value - the long term EBIT margins are ~20%. The growth has been driven in the past through organic success and bolt on-acquisitions. The track record of the management is strong. The recent Q3 results were solid, but there was a warning regarding a tougher Q4 due to de-stocking and the credit environment, and we have some concern that these issues could spread into Q1 2009. However, we think this is reflected in the shares and focus on the buy case based on the valuation and defensive nature of spirits brands - the target price is based on DCF which reflects the long term assumptions.

- After the recent acquisition of Absolut by Pernod, we expect to see some unwanted brands to be sold, which should lead to opportunities for Campari. In the current environment the buyers should have the upper hand, especially with leveraged buyers having difficulty getting finance. Campari have said they would like to spend ~€600m on acquisitions.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	10.4	9.4	8.5
EV/EBITDA	7.2	6.6	5.5
EV/EBIT	7.9	7.3	6.0
Net Debt:EBITDA	1.3	0.8	0.3
FCF Yield (%)	8.4	9.2	11.7
Dividend Yield (%)	2.3	2.3	2.3

Risks

That they overpay for acquisitions, and that the current environment leads to greater de-stocking than anticipated.

For full details on the analyst recommendation, estimates and research disclosures, please see this Campari note from the DB Global Markets Research site: http://tinyurl.com/campari-11nov08

Buy (TP €30, 25% upside) **Analyst** tim.rokossa@db.com / +44 69 910 31998
Bloomberg EVD.GY **Mkt cap** €575m **Liquidity** ~€0.8m/day

What they do

CTS Eventim AG is a leading company in the European ticketing and live entertainment industry. It distributes tickets via stationary box offices and call centres as well as Internet platforms, clearly benefiting from the ongoing migration to online ticketing. In addition, the Group plans, organizes and promotes several kinds of live events. The company has recently started to collaborate with the world's largest live events company, Live Nation, in the field of ticket sales on a worldwide basis.

The buy case

- Enormous growth potential from the collaboration with Live Nation and the rapid increase in internet-generated ticket sales, which have much higher margins than from non-internet sources (40% online share of retail tickets is still well below US level with 70%, which leaves plenty of room for further migration).

- High barriers to entry, primarily due to mandatory relationships within the people's business live entertainment but also from a technological perspective (highly sophisticated platform).

- Dominant leader in the German speaking market & Europe. Expansion to 11 new European countries and the huge North American market from next year; Live Nation as a strong expansion partner which delivers content.

- Strong momentum given they just bought the leading Finish ticket distributor. Potentially more bolt-on acquisitions to come given ~€90m in net cash. For the gross cash flow we predict a increase from €40.7m 08E to €53.9m 09E rising to €64.5m in 10E.

- EBIT margins are expected to rise due to the international expansion and ongoing migration from offline to online, coupled with shrinking ramp-up costs for international rollout. We expect margins to rise from 11.9% for FY08E, to 14.7% for FY09E and 16.3% for FY10E.

- Dividend yield is expected to rise from 1.6% last year to 4.2% in FY10E.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	21.4	14.6	11.9
EV/EBITDA	8.2	5.9	4.6
EV/EBIT	9.6	6.7	5.2
Net Cash (€m)	127	158	193
FCF Yield (%)	6.3	9.8	11.5
Dividend Yield (%)	2.3	3.4	4.2

Risks

As major risks we consider longer than expected economic downturn, delays in the international expansion and the limited free float. From a valuation point of view CTS, relative to the market, might look expensive. In combination with the limited Free Flow this could be a risk for the share price. But we view FY09E multiples attractive on an absolute basis. Furthermore we think that the collaboration with Live Nation represents the key trigger for future growth. This is a great opportunity, but also represents a risk related to the immediate success of the rollout of the ticketing business. A further Risk to the success of CTS could be a slowdown in the activity of artists going on world tours.

For full details on the analyst recommendation, estimates and research disclosures, please see this CTS Eventim note from the DB Global Markets Research site: http://tinyurl.com/cts-11dec08

GALENICA

Buy (TP CHF 550, 63% upside) **Analyst** thomas-hans.rauch@db.com / +41 44 227 3379
Bloomberg GALN.SW **Mkt cap** CHF 2.2bn **Liquidity** ~CHF 7.1m/day

What they do

Galenica AG is a diversified healthcare group which develops, manufactures and markets pharmaceutical products globally. It also runs pharmacies, provides logistics services and access to health databases in the Swiss market.

The buy case

- Defensive with a growth profile: Galenica generates 86% of revenues in relatively defensive wholesale and retail activities. The group is the leading Swiss wholesaler for hospitals, doctors and pharmacies, and the leading Swiss pharmacy chain.

- Growth drivers in the pharma segment (~80% of EBIT). The underlying market for Galenica's iron therapy products is growing strongly (6-7% pa), based on higher incidence of diseases such as kidney ailments and diabetes, as well as new indications. Aside from this underlying growth for iron therapies, the pharma division should grow sales through country-by-country European rollout of its new injectable Ferinjet product, and extension of IV iron sales outside of the dialysis market (85% of Swiss sales are outside the dialysis market vs 15-18% in the rest of the world). We estimate the untapped market at CHF 2.5-2.8bn, over 6x Galenica's current revenues.

- The Aspreva acquisition should aid global rollout of drugs: Aspreva, acquired in October 2007, specialises in the development of new therapeutic indications for existing drugs, and brings medical, regulatory and market knowledge to Galenica. Potential therapeutic indications for Ferinject include pre-dialysis, Crohn's disease, congestive heart failure, oncology, heamodialysis, surgery, and gynaecology.

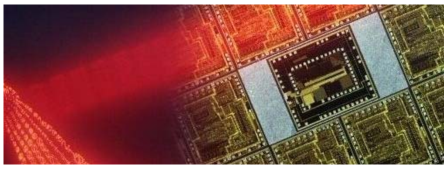
Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	6.1	6.0	6.6
EV/EBITDA	6.4	5.6	5.3
EV/EBIT	12.2	8.7	7.4
Net Debt:EBITDA	1.7	1.2	0.7
FCF Yield (%)	8.9	15.0	15.2
Dividend Yield (%)	2.4	3.0	3.3

Risks

The iron drug market is highly competitive, and Galenica is highly dependent on the commercial success of its key iron drugs. Ferinject's indication could be more restrictive than the company has proposed in its application to the FDA. Rejected approval or delays in receiving approval from the FDA and/or other comparable regulatory agencies would be a significant disappointment to the market. Sustainability of CellCept royalties from Roche is a concern, as are reduction in expenditure on health care and change in reimbursement policies.

For full details on the analyst recommendation, estimates and research disclosures, please see this Galenica note from the DB Global Markets Research site: http://tinyurl.com/galenica-05nov08



Buy (TP €35, 85% upside)
Bloomberg GTO.FP

Analyst david.cerdan@db.com / +33 1 4495 6624
Mkt cap €1.7bn **Liquidity** ~€9.7m/day

What they do

Gemalto NV is the world leader in smart cards for the mobile, banking, and ID and security industries, with a global market share estimated at 40%.

The buy case

- Profile of the group has changed: in the 2 years since the merger of Gemplus and Axalto was announced, the group has transformed from an unprofitable producer of commoditised SIM and bank cards into a cash-generative, diversified global leader with 3 divisions: Telecoms (67% of sales, a cash cow), Secure Transactions (15% of sales, a recovery story) and ID & Security (15% of sales, a nascent industry).

- Less cyclical than it appears: SIM card sales have proven to be relatively uncorrelated to mobile handset sales, which are more driven by consumer discretionary spend than the subscriber growth and churn at mobile operators. Bank card sales have continued to be boosted by chip-and-pin migrations in a number of countries, and bank mergers present possibilities for rebranded cards. E-passport demand is driven by government concerns over border security, and Gemalto's €400m order book provides visibility on 3-4 years of sales.

- Margin expansion potential: Secure Transactions broke even in 2008 following a plant closure, and we see a potential EBIT margin of 10% based on increasing the percentage of personalised cards from 30% in 2007 towards Oberthur's 100%+. We conservatively expect ID & Security to break even in 2010 compared to company guidance of 2009. We forecast a group EBIT margin of 11.6% in 2010 versus consensus at 10.4%.

- Solid balance sheet: We forecast €500m net cash at end of 09E, of which up to €400m could be returned to shareholders via buybacks and dividends over the next 2 years.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	11.4	7.9	6.7
EV/EBITDA	6.1	3.8	2.5
EV/EBIT	8.8	5.1	3.2
Net Cash (€m)	394	561	793
FCF Yield (%)	8.9	15.0	15.2
Dividend Yield (%)	2.4	3.0	3.3

An EPS CAGR of 25% out to 2010.

Risks

Gemalto is exposed to risks relating to customers' willingness to adopt innovation, commoditisation and delays in migration programmes. Lower-than-usual patent licensing revenues could also erode Gemalto's profitability. In the short term, a disappointing sales release could further undermine investor confidence in management and limit the potential for a rebound in the share price.

For full details on the analyst recommendation, estimates and research disclosures, please see this Gemalto note from the DB Global Markets Research site: http://tinyurl.com/gemalto-04nov08

HMV

Buy (TP 130p, 20% upside) **Analyst** jamie.isenwater@db.com / +44 207 547 5170
Bloomberg HMV.LN **Mkt cap** £450m **Liquidity** ~£5.2m/day

What they do

Under the HMV brand, **HMV Group plc** is the UK leading independent retailer of CDs and DVDs and the #2 in Games, also operating music stores in Asia and North America. Under the Waterstones brand they are the leading book retailer in the UK.

The buy case

While the current consumer environment is challenging in the UK, as we saw in the recent H1 results, and HMV has the characteristics of offering low ticket prices and a very broad product range across all their categories. The competition is suffering, as has been particularly evident in recent weeks. The management team have done an excellent job since arriving two years ago to improve the returns via a cost saving programme and improved customer offer. The business is in good shape. The 2 key points to the idea –

1. Competition. Woolworths were a #2/3 player on the UK high street who have now gone into administration and should be leaving a meaningful market share up for grabs. Woolworths subsidiary EUK is the wholesale supplier to Zavvi (ex Virgin Megastores) who are the other #2/3 player. Zavvi is widely reported to be behind on payments to EUK. Where we have seen completion coming off the high street we have seen HMV's market share rising. This is the key area of upside to our forecasts.

2. Product mix. The release schedule going into this Christmas is robust, and the Games market is strong. Deflation in CDs is virtually at an end and DVDs slowing rapidly.

Valuation

	Apr 09E	Apr 10E	Apr 11E
P/E	10.2	8.9	9.7
EV/EBITDA	4.2	3.7	3.7
EV/EBIT	6.8	5.8	5.9
Net Debt:EBITDA	0.2	0	-0.2
FCF Yield (%)	1.3	11.4	12.4
Dividend Yield (%)	6.9	6.9	6.9

This remains one of the most shorted stocks in the UK. They have zero bank debt but total operating leases of ~£1bn.

Risks

The market pressures on their competitors don't lead to the gains we hope for. UK consumer pressure greater than forecast in 2009.

For full details on the analyst recommendation, estimates and research disclosures, please see this HMV note from the DB Global Markets Research site: http://tinyurl.com/hmv-11dec08

NORTHUMBRIAN WATER

Buy 340p (34% upside) **Analyst** iain.turner@db.com / +44 207 547 5392
Bloomberg NWG.LN **Mkt cap** £1.3bn **Liquidity** ~£5.5m/day

What they do

Northumbrian Water Group plc is a UK regulated water supplier. Operating in 5 year regulated periods.
The next review is scheduled as follows:

1. Draft pricing proposals to be announced July 2009
2. Final pricing proposals announced Nov 2009
3. New pricing to start April 2010.

We assume the regulator will allow the water companies a 4.7% return v 5.1% currently.

The buy case

We view the regulator as transparent about how they deal with the water companies, and their legal obligation is to act to ensure that the water companies can finance themselves. The regulator has said that they take this to mean the following:

1. That the water companies have an investment-grade credit rating.
2. That the regulator would like to see the shares trade at a premium to Regulatory Asset Base (RAB).

Thanks to regulation, the company has no exposure to volumes. Inflation is a pass-through on charging with a big part of their debt inflation linked.
We have seen historic deals in the regulated utility sector done at huge (30%+) premiums to RAB, the current valuation of NWG has gone to the other extreme, with the shares trading at a discount to RAB of 265p. Debt is long term. We don't need to see M&A to justify the buy case with a dividend yield of 5.1%. Our target price is based on the shares trading at a 13% premium to RAB.

Valuation

	Mar 08A	Mar 09E	Mar 10E
P/E	12.3	10.7	9.9
EV/EBITDA	11.2	10.0	9.9
EV/EBIT	13.9	12.5	12.4
Net Debt:EBITDA	6.2	6.3	6.2
FCF Yield (%)	0.7	1.7	4.5
Dividend Yield (%)	3.7	5.1	5.4

At ~£2bn, NWG's debt is just over 60% of RAB, in line with the water sector and assumed by the regulator as its benchmark at the last regulatory review. The regulator has a duty to allow companies to effectively finance themselves, allowing them to support a high level of debt. The company has no refinancing until 2011.

Risks

While the pricing is RPI+X, and people are concerned about deflation, their biggest cost is power (20% of costs and this is falling faster than RPI). A less favourable pricing outcome in the next review.

For full details on the analyst recommendation, estimates and research disclosures, please see this Northumbrian Water note from the DB Global Markets Research site: http://tinyurl.com/nwg-18nov08

Buy 610p (98% upside)
Bloomberg PTEC.LN

Analyst jon.tarasewicz@db.com / +44 207 545 7419
Mkt cap £750m **Liquidity** ~£3.9m/day

What they do

Playtech Ltd is the world's biggest publicly-traded online gaming software company, developing and marketing products for the likes of casino, poker, bingo, mobile gaming, video-streams and arcade games. Clients include online gambling sites like bet365.com, casinos such as Club Dice and Casino Tropez, and in Q308 signed a major joint venture with William Hill.

The buy case

- Playtech offers diversified exposure to the underlying growth of the online gaming industry –
a) organic growth driven by revenue growth at existing licensees,
b) signing up new licensees (3 of their 10 current sign-ups were launched in Q308),
c) cross-selling of additional products to existing licensees – their unified platform allows all their gaming activities to be incorporated via the same user account and management interface,
d) new product launches, particularly with rapidly increasing broadband penetration in Asia-Pacific driving scope for new titles – Asian P2P games were launched in August and are being rolled out to new licensees.

- The William Hill deal is highly accretive and strategically attractive – the acquisition of a marketing affiliate network on 8x earnings, the sign-up of a major new licensee, and a 29% stake in a joint venture containing all William Hill's online businesses – we forecast this to be earnings-accretive to the tune of 20% in 09E, 24% 10E.
- Additional substantial value creation from exercising 5 remaining call options on affiliate companies.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	10.6	6.7	5.7
EV/EBITDA	7.7	7.3	5.9
EV/EBIT	8.3	7.8	6.3
Net Cash (€m)	215	96	172
FCF Yield (%)	8.9	14.3	16.9
Dividend Yield (%)	4.7	7.5	8.8

Down over 40% from its summer peak, Playtech trades at its year lows.

Risks

Regulatory changes in the source markets of Playtech's licensees could cause a substantial loss in revenues; operating margin pressure risk if longer-term pressure to reduce royalty percentage from licensees, competitors poaching existing licensees, and reasonable FX risk given the company's global nature.

For full details on the analyst recommendation, estimates and research disclosures, please see this Playtech note from the DB Global Markets Research site: http://tinyurl.com/playtech-20nov08

serco

Buy 545p (29% upside)
Bloomberg SRP.LN

Analyst andy-c.chu@db.com / +44 207 547 7650
Mkt cap £2.1bn **Liquidity** ~£10.6m/day

What they do

Serco Group plc is one of the few stocks within support services that benefits from a slowing macro-economic backdrop as customers need 3rd party outsourcing companies to help them save costs in turbulent times. Average contract lengths are 10 years and it has a track record of winning over 90% of its re-bids and 50% of new contracts thus ensuring a highly visible earnings stream.

The buy case

- It is a company that has incredibly defensive earnings streams with high visibility– 90% of its business is with local and central UK government and it has delivered mid teens organic growth for the last 10 years and we agree with management in that it can continue to deliver double digit growth rates for the foreseeable future given the market is estimated to be worth £24bn. Serco has already secured 99%, 83% and 73% of 08, 09 and 10 revenues respectively and importantly for a contract business it does not have any major contracts up for renewal until 2011.

- Serco has grown its top-line organically by around 14% pa over the past decade. In the last 3 years, management has focused on more profitable growth by bidding for more complex, higher margin business. This will require investment and whilst this could make margin progression more volatile in the short term, we believe that in the medium term Serco can continue to grow revenues double-digit and push margins to a range of 6-7% (currently 5%).

- We expect the company to generate £122m in 09, £141m in 10, reducing net debt to £297m in 09E and £176m in 10E.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	19.5	15.3	12.9
EV/EBITDA	11.2	8.3	6.8
EV/EBIT	14.5	10.4	8.5
Net Debt:EBITDA	1.9	1.1	0.6
FCF Yield (%)	5.2	6.0	7.2
Dividend Yield (%)	1.2	1.5	1.8

Whilst Serco and Capita have differing business models, their earnings growth profiles over the past 3 years have not been significantly different, with organic growth at ~20% on average pa. However, Serco is trading on an 09E P/E of ~15x (which represents a ~25% discount to Capita), which is right towards the bottom of its historical trading range of 13x to 20x 1 year forward multiple. Regarding Serco's EBIT margins, we expect a development from 5.2% in 08E to 5.6% in 09E.

Risks

Major risks to our valuation include the loss of a major contract (although there is no material contract up for renewal until 2011), damage to reputation from mis-executing a contract and a reversal in the long-term trend to outsourcing. Furthermore we see a risk in lack of control of the business, given that Serco operates in over 10 business segments and over 30 countries worldwide. Additionally we consider a possible slow down in the trend to outsourcing as a risk to top-line growth expectations from double-digit levels.

For full details on the analyst recommendation, estimates and research disclosures, please see this Serco note from the DB Global Markets Research site: http://tinyurl.com/serco-25sep08

Schindler

Buy CHF90 (84% upside) **Analyst** ken.kagerer@db.com / +41 44 227 3378
Bloomberg SCHP.SW **Mkt cap** CHF 5.8bn **Liquidity** ~CHF 7.7m/day

What they do

Schindler Holding AG manufactures, installs and maintains elevators, escalators and moving walkways.

The buy case

- Reputation as a cyclical stock is belied by the resilience of its legislation-driven service business (50% of sales and the majority of earnings). The estimated number of worldwide service contracts is around 8m (Schindler's share is around 13%), growing at the growth rate of new installations which is estimated at 4% pa. Pricing pressure is limited in services (we model -1% pa), and margins are much higher in servicing than in new installations (15-20% EBIT margin vs 0-5% in new installations).

- Safety concerns driving modernisation spend: competitor Kone estimates that 2/3 of European lifts are over 30 years old and many do not comply with the European Safety Norm for Existing Lifts (SNEL). Assuming that 20% of the lifts over 30 years old are modernised at an average cost of €20-40k, the amount of modernisation spend could total €20bn, an additional 5-7% of volumes to the annual elevator and escalator market over 5-10 years. Margin upside: in addition to the boost to margins from the increasing contribution of services, Schindler should benefit from ongoing industry consolidation, and cost-cutting from their R03 plan. Management targets a medium-term EBIT margin of 14% in its E&E business, we currently forecast 10.6% for 2010; if they succeed in expanding margins to 14% it would drive a 40% EPS upgrade in 10E.

Valuation

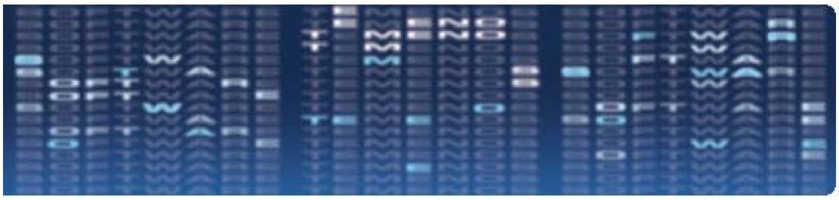
	Dec 08E	Dec 09E	Dec 10E
P/E	9.9	9.9	9.5
EV/EBITDA	5.3	5.0	4.6
EV/EBIT	6.1	5.7	5.3
Net Cash (CHFm)	486	770	1072
FCF Yield (%)	8.0	8.7	9.2
Dividend Yield (%)	3.3	3.5	3.7

Risks

Aside from economic and currency risks, possible diversification moves could present an investment risk (eg the acquisition of non-core assets). The Schindler and Bonnard families control the majority of votes (2005: 69%). The outcome of the EU competition authorities' investigation of the elevator industry represents a further risk for investors.

For full details on the analyst recommendation, estimates and research disclosures, please see this Schindler note from the DB Global Markets Research site: http://tinyurl.com/schindler-29oct08

TEMENOS™



Buy CHF34 (127% upside) **Analyst** josep.bori@db.com / +44 207 545 8912
Bloomberg TEMN.SW **Mkt cap** CHF 900m **Liquidity** ~CHF 6.4m/day

What they do

Temenos Group AG is a leader in integrated banking software, providing banks with an out-of-the-box core banking operations platform. This platform should be flexible enough to serve retail, wholesale, universal and even central banks (e.g. World Bank). They also offer a range of professional services, such as application management and management consulting. Temenos serves 600+ customers in over 120 countries.

The buy case

- Despite the deteriorated macro environment, we believe that Temenos continues to benefit from secular growth in the core banking software market – a less discretionary component of IT investments that are typically multi-year components, difficult to stop once launched. Maintenance and particularly service revenues have proven to be more resilient than expected thus far.
- Temenos' share price almost halving in October 2008 on the back of SAP's profit warning seems heavily overdone, given the sale cycle, revenue visibility, industry penetration levels and underlying growth drivers between the two companies widely vary.
- The Metavante agreement (an exclusive alliance to launch an advanced core banking platform in USA) may provide further upside in 2009.

Valuation

	Dec 08E	Dec 09E	Dec 10E
P/E	8.9	8.3	6.9
EV/EBITDA	7.2	6.6	4.4
EV/EBIT	8.9	8.1	5.4
Net Debt:EBITDA	0.8	0.3	-0.3
FCF Yield (%)	8.2	7.4	12.4
Dividend Yield (%)	0	0	0

Temenos trades at a ~20% discount to European software peers, with much faster earnings growth (26.3% CAGE EPS growth 07-09E vs 6.1% peers). Our numbers embed very conservative license growth of 6%, driving total revenue growth to 14% vs 20-25% guidance.

Risks

New licensee revenues are vulnerable – in the current environment few long-term strategic decisions are being made so pipelines could easily slip – note however that Temenos' key area within core banking is relatively immune. Future competition from SAP, Oracle (via its I-Flex stake) and possibly Misys resurging. The TCB product business is relatively immature.

For full details on the analyst recommendation, estimates and research disclosures, please see this Temenos note from the DB Global Markets Research site: http://tinyurl.com/temenos-03nov08

Global Disclaimer