BHF BANK
PRIVAT SEIT 1854

LPKF Laser & Electronics

- Strong results; Market Weight maintained -

- ***LPKF released a strong set of 3Q10 results.*** *Revenues of €24.4m (+29.0% QoQ) came in at a record high, being in-line with our forecast of €24.0m. Demand was mainly driven by the company's Cutting & Structuring Laser unit which was up by approximately 40%. In this segment, LPKF profited from strong demand for LDS (Laser-Direct-Structuring) systems and laser systems used for the depaneling of assembled printed circuit boards. Its EBIT margin came in at an outstanding level of 26.7% being ahead of our forecast of 20.7%. The deviation stems from a higher-than-predicted revenue share of the highly profitable Cutting & Structuring Laser segment as well as lower-than-estimated material expenses. Therefore and due to a lower tax rate, net income of €4.2m beat our forecast of €3.4m.*

- ***Quarterly order intake decreased by 32% QoQ to €18.8m compared to our estimate of €16.2m.*** *However, 2Q10 order intake included a large order for laser cutting systems in the amount of around €6m. Furthermore, large swings in order entry are part of the business as producers of mobile phone antennas usually order LDS tools in the second quarter of the year to prepare for the Christmas business.*

- ***2010F guidance confirmed but we think too conservative:*** *Management reiterated its full-year guidance, targeting sales of around €79m and EBIT of approximately €15m. Given the company's results for the first nine months, i.e. revenues of €60.9m, EBIT of €14.9m and order backlog of €18.2m this would imply 4Q10F revenues of €18.1m and EBIT of €0.1m. While we believe management's revenue guidance is realistic, we view the EBIT guidance as too pessimistic. Even though the product mix will likely worsen in 4Q10F and costs for the refurbishment of the production facility will likely also negatively impact the EBIT figure, we believe the revenue level of around €18m is sufficient to deliver EBIT of more than €1.5m.*

- ***Raising 2010 EBIT and net income estimates:*** *On the back of the better-than-expected results, we raise our 2010 EBIT estimate to €16.6m from €15.0m. Therefore and due to a lower tax rate assumption, our net income estimate is increased to €11.3m from €10.3m, translating into EPS of €1.04 (prev. €0.94). We leave our 2011 and 2012 estimates unchanged.*

- ***Market Weight rating and target price of €15.30 maintained:*** *Our target price of €15.30 is based on the equal weighting of a DCF model (WACC of 9.0%, sustainable EBIT margin of 14.5%, beta of 1.0x, terminal growth rate of 2.0%) and a peer group comparison (AIXTRON, Coherent, Cymer, IPG Photonics, Jenoptik, Mühlbauer, Newport, Pfeiffer Vacuum, Rofin-Sinar). We keep our Market Weight rating and recommend investors to wait for a possible pullback in the share price.*

Market Weight
Old: Market Weight

Target price: €15.30
Old: €15.30

LPKF Laser & Electronics
Capital Goods - Engineering

Price:	*€14.60*
Date:	*08 Nov 2010*
Market cap (€m)	*159*
Free float (%)	*74*
Daily volume Ø ('000)	*98.7*
Reuters	*LPKG.DE*
Bloomberg Code	*LPK GY*
Index	*Prime*
ISIN	*DE0006450000*
Disclosure	*2*

	2010F	**2011F**	**2012F**
EPS	1.04	1.06	1.21
PER	14.5	13.8	12.1

Risks:
The key risk to our rating and target price is a slower/faster-than-predicted adoption of the LDS technology.

Target price derivation:
Peer group valuation and DCF model.

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