

**HOLD**

FLSmidth

Denmark, Construction & Engineering

FLS.CO (REUTERS) - www.flsmith.com - FLS DC (BLOOMBERG)

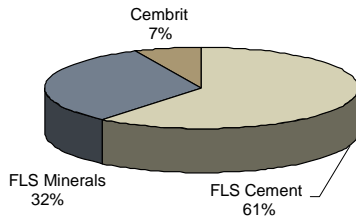
Share price: DKK 178.0

Target price: DKK 200.0

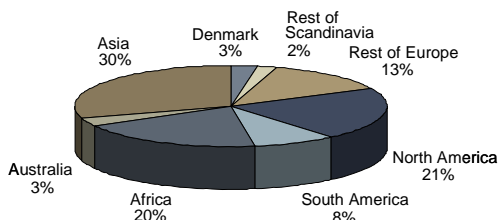
Market Cap (m): DKK 9,844

Daily traded shares, -3m (k): 715

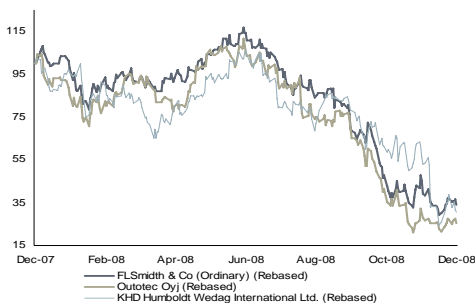
Sales by business area



Geographical sales distribution



Share price



Stuck in your teeth

In a nutshell why HOLD? Too chewy.

Excuse me? At a time when lots of cases are going cheap, it's important to pick the right one, which means one with news-flow which won't get stuck in your teeth.

FLSmith? Back in our Guide after a brief absence. It's the parent company of the FLS Group which is a global provider of services, machinery, equipment and complete production lines and plants to the cement and minerals industries.

I meant will FLSmith get stuck in your teeth? It already has; we've been sucked in by the great growth story, but now that our detailed study of the mining industry concludes that up to 70% of all projects are at risk of being either cancelled or postponed in the next few quarters, it's leaving a bad taste in our mouth, and we cut to HOLD on 9 December.

INVESTMENT CASE

Did you say, your study of the mining industry concludes that up to 70% of all projects could be either cancelled or postponed? Our detailed study; yes. Not a good appetiser huh? It means a main risk into 2009 – for FLSmith and everyone else - is the backlog and risk of cancellations/postponements.

Yeuch! Will FLSmith go hungry? Good question; as cash is king in times of high volatility in sales (like now) with everyone chasing the same bank financing. Fortunately FLSmith's business model – a highly flexible cost base (more than 80% of production costs outsourced) and very light asset model – means both margins and operating cash flow are somewhat protected.

Meaning it shouldn't have to go begging to the banks for scraps? Exactly.

VALUATION

It sounds quite yummy... FLSmith is fundamentally a strong case, but with potential negative news flow ahead and poor visibility on global economic growth (including commodity prices), fundamentals are no longer in focus.

Spit it out? Not at this price. Although it trades more-or-less in line with the average of its Nordic peers, it's undervalued on both fundamentals and vs. its historical trading range, so we'd suck it and see...

Key Highlights

Year	Net sales DKKm	EBIT DKKm	EBITDA DKKm	EBITDA %	PTP DKKm	EPS DKK	EPS Chg %	CEPS DKK	EV/S (x)	EBITDA (x)	EBIT (x)	P/E (x)	Yield %
2004	10,829	-194	144	1.3	287	2.74	107.4	-4.14	0.48	8.1	17.3	37.5	6.9
2005	10,250	398	558	5.4	458	9.06	201.5	12.26	0.73	13.4	18.7	20.5	3.8
2006	12,311	788	966	7.8	949	21.54	129.5	23.88	1.36	16.8	20.5	16.7	2.0
2007	19,967	1,818	2,100	10.5	1,877	24.58	23.7	35.05	1.49	14.2	16.4	21.2	2.2
2008e	26,294	2,602	3,000	11.4	2,398	31.89	31.7	39.36	0.40	3.5	4.1	5.6	5.3
2009e	24,277	2,302	2,617	10.8	2,234	30.56	-8.3	36.55	0.41	3.8	4.4	5.8	4.3
2010e	19,012	1,722	1,968	10.4	1,702	23.28	-23.5	27.94	0.49	4.8	5.5	7.6	6.4

Share price:	178.0	Total shrs (m):	52.6	P/BV %:	177	WACC %:	9.2	1M perf. %:	-9.6
Mkt cap (m):	9,370	Fully dil shrs (m):	52.6	EV/Cap empl %:	163	RoE 05-10 %:	35.1	3M perf. %:	-47.6
Net Debt (m):	1,223	Daily tr. shrs (k):	715	Net gearing %:	23	ATROCE 05-10 %:	48.3	12M perf. %:	-67.0

EPS excludes non-recurring items and goodwill impairment. For definitions, see footnotes under Income Statement and Valuation and Return Analysis at the end of this report.

Target price: DKK 200

Risk: Macro environment, competition

Methodology: DCF and SOTP

ABG SUNDAL COLLIER

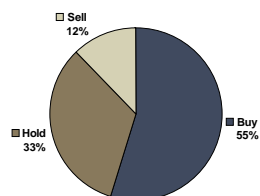
COMPANY PROFILE: FLSmidth is the parent company of the FLS Group which is a global provider of services, machinery, equipment and complete production lines and plants to the cement and minerals industries (FLS Cement & Minerals). It is expected that its non-core holding in Cembrit, will be disposed of within the foreseeable future. Eternit produces roofing materials, etc.

Income Statement (DKKm)	2004	2005	2006	2007	2008e	2009e	2010e
Net sales	10829	10250	12311	19967	26294	24277	19012
Other income	0	0	0	0	0	0	0
Operating expense	-10997	-9816	-11479	-17986	-23452	-21825	-17169
EBITDA	144	558	966	2100	3000	2617	1968
Depreciation on tangibles	-312	-124	-134	-119	-108	-130	-90
Depreciation on intangibles	0	0	0	0	-50	-35	-35
EBITA	-168	434	832	1981	2842	2452	1842
Goodwill amortisation and impairment	-26	-36	-44	-163	-240	-150	-120
EBIT	-194	398	788	1818	2602	2302	1722
Interest net	-12	114	146	53	-111	-67	-20
All other financial items	0	-54	-13	6	-98	0	0
Associated income	493	0	28	0	5	0	0
Pretax profit	287	458	949	1877	2398	2234	1702
Minority interest	-5	0	0	0	0	0	0
Tax	-136	18	183	-583	-719	-626	-477
Profit after tax	146	476	1132	1294	1678	1609	1226
XO items after tax	0	0	0	0	0	0	0
Net profit	146	476	1132	1294	1678	1609	1226
Balance Sheet							
Cash and liquid assets	650	2884	3132	1201	1629	2181	2839
Receivables	5269	4228	5932	9209	12621	12017	9126
Inventories	529	552	832	1463	1841	1699	1464
Current assets	6448	7664	9896	11873	16091	15897	13429
Long-term interest bearing assets	0	0	0	0	0	0	0
Shares and participations	394	495	827	828	833	823	823
Goodwill	59	90	131	3191	3191	3191	3191
Other intangibles	138	147	178	2234	1944	1759	1604
Other fixed assets	1154	1181	1219	1546	2138	2407	2617
Fixed assets	1745	1913	2355	7799	8106	8180	8235
Total assets	8193	9577	12251	19672	24197	24077	21664
Short-term debt	69	153	132	491	491	491	491
All other ST liabilities	4409	5505	7217	10170	14287	13044	9805
Current liabilities	4478	5658	7349	10661	14778	13535	10296
Long-term interest bearing debt	287	418	874	3032	2361	2376	2376
All other LT liabilities	843	853	836	1765	1765	1765	1765
Long-term liabilities	1130	1271	1710	4797	4126	4141	4141
Shareholders equity	2560	2644	3188	4204	5282	6391	7217
Minority	25	4	4	10	10	10	10
Total equity	2585	2648	3192	4214	5292	6401	7227
Total liab and equity	8193	9577	12251	19672	24197	24077	21664
Cash Flow Analysis							
Cash earnings in operations	-214	582	1096	1804	2218	1973	1485
Change in working capital	-88	2114	-272	-955	328	-498	-113
Capital expenditure	2984	-227	-288	-5725	-700	-400	-300
Operating cash-flow	2682	2469	536	-4876	1846	1075	1073
Net of acquisitions and divestments	0	0	0	0	0	0	0
Other investments	642	-101	-299	-1	0	10	0
Free cash-flow	3325	2368	238	-4877	1846	1085	1073
Financial cost after tax	-6	62	159	41	-146	-48	-14
Dividend paid	0	-372	-372	-372	-600	-500	-400
Equity increase	-268	-20	-216	94	0	0	0
XO items after tax	0	0	0	0	0	0	0
Other cash-items	-19	-19	5	666	0	0	0
Decrease in net debt	3031	2019	-187	-4448	1099	536	658
Performance Key Ratios							
Net sales	-27.4	-5.3	20.1	62.2	31.7	-7.7	-21.7
EBITDA growth, % (y/y)	242.6	287.5	73.1	117.4	42.9	-12.8	-24.8
EBITA growth, % (y/y)	93.9	358.3	91.7	138.1	43.5	-13.7	-24.8
EBIT growth, % (y/y)	93.5	305.2	98.0	130.7	43.1	-11.5	-25.2
EBITDA margin, %	1.3	5.4	7.8	10.5	11.4	10.8	10.4
EBITA margin, %	-1.6	4.2	6.8	9.9	10.8	10.1	9.7
EBIT margin, %	-1.8	3.9	6.4	9.1	9.9	9.5	9.1
Full tax rate, %	47.4	-3.9	-19.3	31.1	30.0	28.0	28.0
Return on equity, ROE	6.0	18.7	46.6	39.4	39.9	30.5	19.2
Return on capital employed, ROCE	7.5	30.3	116.5	47.8	39.9	33.8	24.0
Net gearing	-11.4	-87.3	-66.6	55.1	23.1	10.7	0.4
Equity ratio, %	31.6	27.6	26.1	21.4	21.9	26.6	33.4
Interest cover	78.4	215.1	348.9	308.0	1646.8	1450.6	1132.3
Shares and share data							
Adjusted price year end	103.0	186.0	359.0	522.0	178.0	178.0	178.0
Actual dividend per share	7.1	7.1	7.1	11.4	9.5	7.6	11.4
Adjusted book value per share	44.4	45.8	54.8	-23.2	2.8	27.4	46.0
Actual shares outstanding average	53.2	52.5	52.6	52.6	52.6	52.6	52.6

EBITDA, EBITA and EBIT are calculated excl. associated income, dividends received and interest cost charged to operating cost.

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Type of Rating	Research Coverage	Investment Banking Clients (IBC)	
	% of Total Rating	% of Total IBC	% of Total Rating by Type
Buy	55%	73%	20%
Hold	33%	22%	10%
Sell	12%	5%	7%

IBC: Companies in respect of which ABGSC or an affiliate has received compensation for investment banking services within the past 12 months

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BUY = We expect this stock's total return to exceed the market's expected total return by 5% or more over the next six months.

HOLD = We expect this stock's total return to be in line with the market's expected total return within a range of 4% over the next six months.

SELL = We expect this stock's total return to underperform the market's expected total return by 5% or more over the next six months.

TRADING BUY = We expect this stock's total absolute return to exceed 10% over the next six weeks.

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Sources for charts, graphs and tables

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