



COMPANY REPORT

DR. KALLIWODA EQUITY RESEARCH

November, 07, 2005



Rating:
Event: Q3-figures

BUY

PSI AG
Software / Infrastructure/Technology

Last Price: € 4,20
Fairer Value: € 5,80

INNOVATION DRIVEN COMPANY

- **Turnaround-Value with good Perspectives**
- **Constant Sales Revenue and Result Improvement**
- **Highly sophisticated Product-Concepts**
- **Growthdrivers Eastern European Energymarkets**

COMPANY DESCRIPTION

With more than a thousand employees, PSI AG is a corporation that develops and distributes IT control systems based on its own software products. These control systems automate the complex core processes of PSI's customers in the Network, Production and Information Management segments (e.g. RWE, EON). Both domestically and internationally, PSI occupies a leading position in these markets.



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Figures in EUR	2003	2004	2005e	2006e
EPS Dr. Kalliwoda	-0,43	-1,11	0,02	0,25
EPS Consensus	-0,43	-1,11	0,04	0,22
Revenues (incl. oth.inc.)(mln)	140,1	119,3	118,4	128,5
net Income (adj.)	-4,4	-12,3	0,3	2,7
net cash per share	1,4	1,6	1,7	1,5
net Cash	17,0	18,9	20,6	18,6
Free Cash Flow	-6,2	5,7	4,0	6,1
P/E	-10,8	-3,9	190,6	17,5
P/S	0,3	0,4	0,4	0,4
Price (curr)	3,95			12,11
52W high	6,3			6,8
52w low	2,1			88,3%
Market Cap (mln)	47,8			0,010%
Last Dividend	0			PSA2
No. Employees	1075			PSA2
Web Page	www.psi.de			696822
		Shares out (mln)		12,11
		6M Avrg Vol (000s)		6,8
		Free Float (in %)		88,3%
		Weight in Prime All Share		0,010%
		Reuters code		PSA2
		Bloomberg		PSA2
		WKN		696822

Source: DR.KALLIWODA | RESEARCH



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1. FINANCIALS

1.1 Constant Revenue-Sales- and Earnings Improvement after First 9 Months of 2005

In the first nine months of 2005 the PSI group had sales of € 84,7 million (2004: € 84,5 million). EBIT improved to € 0,1 million (Q1-Q3 2004:€ -9,1 million), the Group result to € - 0,5 million (Q1-Q3 2004: € -10,5 million).¹

In the Network Management segment (Energy, Telecommunications, Traffic), sales increased in the first nine months by 4% to € 46,6 million compared to € 44,97 in the previous year period. In the Production Management segment sales could be increased by 8% to € 33.1 million.

EBIT improved strongly to € 0,6 million in the first nine months compared to € -2,7 million in the same period of the previous year.

A weak performance showed in the Information Management segment (Authorities, Service Providers) with sales of € 5 million in the first nine months and EBIT of € -1,6 million.

In the first nine months Group's new orders were at € 79 million. A major order for € 7 million, which was placed in September, could only be booked in October due to the more rigid controlling guidelines that PSI uses since 2004.

The PSI Group has a liquidity of € 14,9 million (September 30, 2005) which is 10% higher compared to September 30, 2004.

1.2 Outlook

We expect for Q4/2005 and 2006 a further improvement of the results in the Network Management segment and in the Production Management segment.

For 2005 we calculate sales of € 118,8 million, EBIT of € 1,55 million, EBT of € 0,3 million and netprofit of € 0,25 million.

The PSI Group strengthens its competences in the segment Energy-Trading and Distribution Systems through the complete takeover of VATECH CNI (www.vatech-cni.com).

After three years of successful export activities within the framework of the joint venture with VATECH CNI, PSI has acquired excellent references around the world, e.g. the electrical supply of the Malaysian capital Kuala Lumpur, the electrical supply for the Swedish railway and several control systems in Slovenia. Therefore PSI should succeed in expanding their international activities in the field of energy. PSI has also continued their export strategy in the Production Management business with new orders from Russia, Austria, Romania, China and Switzerland in the third quarter.

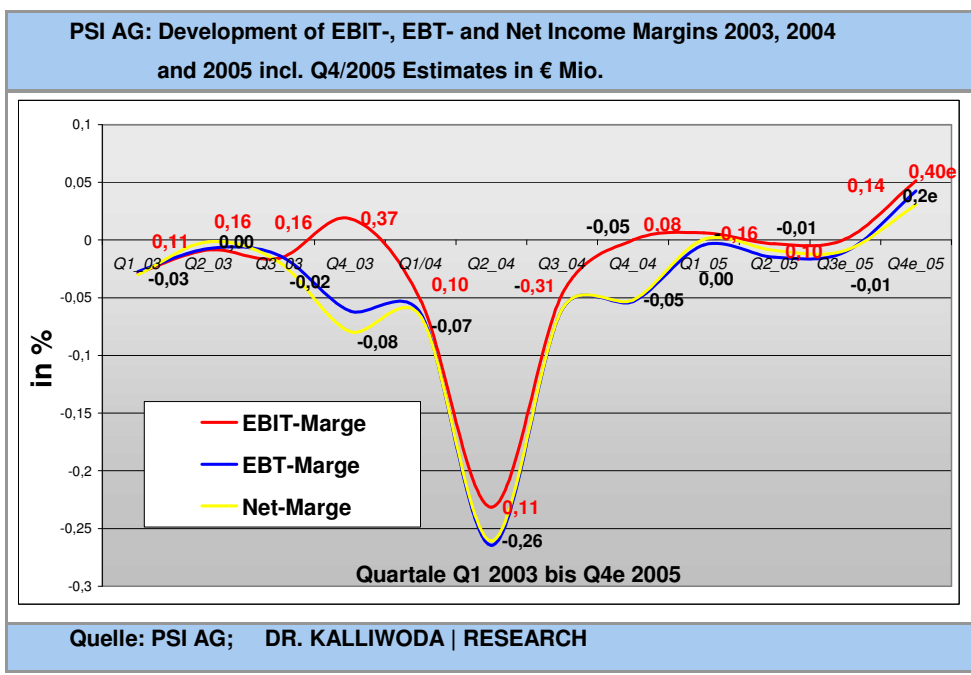
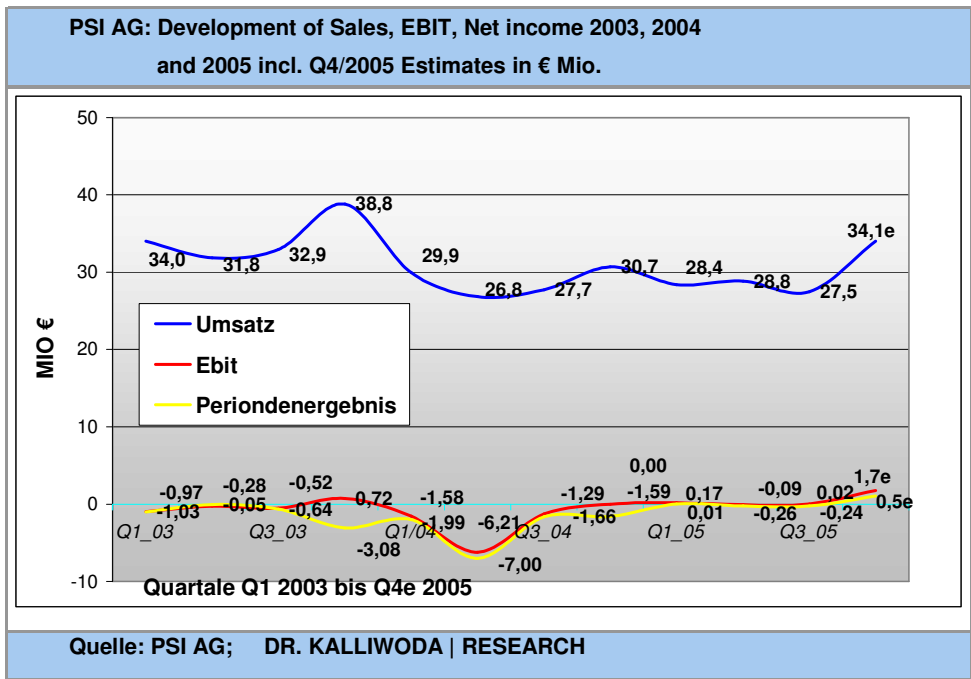
Our sales and earnings estimates in our Discounted-Cash-Flow-model are calculated on a conservative basis and do not reflect the full earnings potential.

¹ The PSI Group has its headquarter in Berlin and employs 1.047 employees (September, 30, 2005). In 2004 there were 1.131 employees.



1.3. Development of PSI 's last three Business Years

The following graphs show the development of the PSI Group (quarterly insight from Q1/2003 to Q4e/2005). The graphs illustrate the development of sales and margins on an absolute and a relative basis until Q3/2005 inclusive of our estimates up to 31th December 2005. In our view the PSI Group should take advantage of strong scale effects in 2006 when the markets in Eastern Europe and China are further penetrated. Further sales triggers for PSI solutions are the Production Management segment, i.e. the engineer manufacturing industry demanding the PSI product PSI-Penta. We see a strong impact on PSI storage solutions which therein manifests itself in the storage solutions for DHL.





1.4. Profit-and-loss-account until 2008

After sales of € 115,2 million in 2004 we expect € 118,7 million in 2005 based on a calculated strong quarter in Q4/2005. The most important business segment Network Management should improve further on. We expect for 2006 a sales increase to € 128,5 million, EBIT of € 4,2 million and netprofit of € 2,7 million. For 2007 we see sales of € 137 million, EBIT of € 7,6 million and netprofit of € 5,1 million. For 2008 our estimates are € 140,8 million of sales, € 11,2 million of EBIT and € 7,7 of netprofit. The following graph shows the profit-and-loss-accounts with estimates up to 2008.

PROFIT & LOSS PSI AG							
\$ mln							
	2003	2004	2005e	2006e	2007e	2008e	CAGR 2004 bis 2008
Revenues	137,6	115,19	118,4	128,5	137,0	140,8	5,1%
% change	522,9%	-16,3%	2,8%	8,5%	6,6%	2,8%	
COGS	-28,5	-22,5	-23,4	-26,4	-28,1	-28,9	
% of revenues	20%	19%	20%	21%	21%	-21%	
Gross income	111,6	96,9	95,1	102,1	108,9	111,9	44,5%
% change	462,4%	-13,2%	-1,9%	7,4%	6,6%	2,8%	
Gross margin	80%	81%	80%	79%	79%	79%	83%
R & D	0,0	0,0	0,0	0,0	0,4	0,8	
% of revenues	0%	0%	0%	0%	1%	103%	
S, S&A (Distr./Mark.)	-81,4	-75,7	-69,9	-72,3	-75,7	-75,8	
% of revenues	58%	-63%	-56%	-55%	-76%	0%	
Other op. Income	-24,8	-26,5	-20,0	-21,7	-22,0	-22,0	
EBITDA	5,3	-5,4	5,2	8,1	11,6	14,9	
% of revenues	4%	-5%	4%	6%	8%	11%	
EBITDA margin	3,8%	-4,5%	4,4%	6,3%	8,4%	10,6%	
EBIT	-1,0	-9,1	1,6	4,2	7,6	11,2	1,0%
% of revenues	-1%	-8%	1%	3%	6%	8%	
EBIT margin	-0,7%	-7,6%	1,3%	3,3%	5,5%	7,9%	1,0%
Financial result	-2,9	-3,2	-1,2	-0,5	-0,8	-0,9	
Pre tax income	-4,0	-12,31	0,3	3,6	6,7	10,3	0,3%
% of revenues	-2,9%	-10,7%	0,3%	2,8%	4,9%	7,3%	
Taxes	-0,4	0,0	-0,1	-0,9	-1,7	-2,6	
Tax rate	-10,4%	0,3%	18,2%	25,0%	25,0%	25,0%	
Minorities	-0,4	0,0	0,0	0,0	0,0	0,0	
Net income (Ex adj.)	-4,8	-12,27	0,3	2,7	5,1	7,7	30,1%
% of revenues	-3%	-11%	0%	2%	4%	5%	
Net margin (incl. other oper. Income)	-3%	-10%	0%	2%	4%	5,5%	
# shares out (mln)	11,011	11,010	11,01	11,01	11,01	11,01	
EPS	-0,43	-1,11	0,02	0,25	0,46	0,70	

Source: DR. KALLIWODA | RESEARCH; VALOR COMPUTERIZED SYSTEMS



1.5 Balance and Cash Flow-Statement until 2008

Our balance estimations consider continuous enterprise growth supported by stable cashflow growth. The balance grows. See also the following cashflow statement in the connection of the following balance estimation.

BALANCE SHEET PSI AG												
EUR mln												
	2003e	in %	2004e	in %	2005e	in %	2006e	in %	2007e	in %	2008e	in %
Intangible assets	16,7	13,9	17,6	18,2	17,6	19,1	17,6	18	17,6	16,87	17,6	16
(thereof goodwill)	16,7	8	17,6	9	17,6	19,1	17,6	18	17,6	16,87	17,6	16
Tangible assets	9,3	8	8,5	9	12,8	14	17,5	18	21,8	21	26,5	24
Financial assets	5,9	5	2,0	2	2,0	2	2,0	2	2,0	2	2,0	2
Fixed assets	48,6	27	45,6	29	50,0	35	54,6	38	58,9	40	63,6	42
Inventories	2,8	2	2,8	3	2,8	3	3,0	3	3,1	0	3,1	3
Trade debtors	59,3	49	39,1	40	38,9	42	41,1	42	42,9	41	43,7	40
Other current assets	4,9	4	3,0	3	0,0	0	0,0	0	0,0	0	0,0	0
Cash & marketable sec.	21,1	18	23,8	25	18,1	20	16,5	17	16,8	16	17,7	16
Current assets	88,1	73	68,7	71	59,8	65	60,6	62	62,8	57	64,6	58
Total assets	119,91	100	96,78	100	92,16	100	97,58	100	104,12	100	110,58	100
Share capital	28,2	24	28,2	29	28,2	31	28,2	29	28,2	27	28,2	25
Reserves	8,9	7	-3,4	-4	-3,2	-3	-1,2	-1	2,5	2	7,7	7
Minority interests	2,4	2	-0,1	0	-0,1	0	-0,1	0	-0,1	0	-0,1	0
Provisions	24,2	20	22,7	23	22,6	25	23,5	24	24,3	23	24,7	22
Financial liabilities	18,5	15	19,1	22	19,0	21	20,1	21	21,0	20	21,4	19
Other liabilities	26,8	22	24,7	29	22,3	24	23,6	24	24,6	24	28,9	23
Total liabilities	80,5	67	72,1	75	67,3	73	70,8	73	73,6	71	74,9	68
Total equity and liabilities	119,91	100	96,78	100	92,16	100	97,58	100	104,12	100	110,58	100

Source: DR.KALLIWODA| Research, PSI AG

CASH FLOW STATEMENT PSI AG													
€ mln													
	2003e	in %	2004	in %	2005e	in %	2006e	in %	2007e	in %	2008e	in %	CAGR
													2003 bis 2008
Operating cash flow	-0,9		6,6		4,7		6,8		8,8		11,4		6,2%
Cash flow from investments	-5,3		-0,9		-0,7		-0,7		-0,7		-1,0		
Free cash flow	-6,2		5,7		4,0		6,1		8,1		10,4		

Source: DR.KALLIWODA| Research, PSI AG



2. COMPANY VALUATION

2.1 Share price goal of € 5,80 and a market-capitalization of € 68,3 Mio Market-Capitalization

On the basis of our Three-Stage-Discounted Cash Flow Model with a weighted cost of capital (WACC) of 14.9% and a beta of 1.6 we calculate a fair value of € 7,30. We consider the risk of PSI's high market share in Germany (Network Management). Therefore we calculate a risk deduction of € 1,50 which lead to our fair value of € 5,80 for each share and recommend the stock to buy

2.2 DCF-Approach and Sensitivity analysis

We did a sensitivity analysis in order to detect the variability of our deduced fair value under different economic scenarios. For this, see the following tables below

The results show an valuation-range € 6,41 to € 11,59. We consider a long-term growth of only 0.5% very unrealistic. We calculate with a conservative long-term growth of only 1%. The fair value varies between € 6,50 and € 10,72 under the premise of a weighted cost of capital (WACC) between 12% and 16%. Analogously, the market capitalization would vary between € 72 million and € 118 million. A weighted cost of capital of 14,9% is realistic in our eyes. From these numbers, a market-capitalization of € 80,5 million, corresponding to a fair share price of € 7,31 for PSI is calculated. Due to the high market share risk in Germany we reduce our fair value to € 5,80 (€ 70,2 million).

DCF PARAMETER	
PARAMETERS	
Risk-free rate	3,5%
Risk premium	6,5%
Beta	1,60
Longterm growth rate	1,5%
Cost of equity	13,9%
Cost of debt (after Tax)	4,2%
WACC	14,9%
NET PRESENT VALUE OF FREE CASH FLOWS (Mio. €)	
Phase 1 (2005-2006)	10,0
Phase 2 (2007-2009)	64,7
Phase 3 (2010...terminal value)	43,4
Net debt	-25,4
Value of total equity	92,6
DCF value per share	7,31

Source: DR.KALLIWODA | RESEARCH 2005

SENSITIVITY ANALYSIS per Share

(EURO)	Discount factor				
β = 1,6	0,12	0,13	0,139	0,15	0,16
0,0%	10,26	9,03	7,99	7,10	6,33
0,5%	10,48	9,20	8,12	7,20	6,41
1,0%	10,72	9,38	8,26	7,31	6,50
1,5%	10,98	9,58	8,41	7,43	6,59
2,0%	11,27	9,80	8,58	7,56	6,69
2,5%	11,59	10,03	8,76	7,70	6,80

Source: Dr. Kalliwoda Research

SENSITIVITY ANALYSIS (Market-Capitalization)

(Mio. EURO)	Discount factor				
β = 1,6	11,9%	12,9%	13,9%	14,9%	15,9%
0,0%	113	99	88	78	70
0,5%	115	101	89	79	71
1,0%	118	103	91	80,5	72
1,5%	121	105	93	82	73
2,0%	124	108	94	83	74
2,5%	128	110	96	85	75

Source: Dr. Kalliwoda Research



3. PSI GROWTHDRIVERS

3.1 Strategy of the PSI Group

Core business of the PSI Group are IT control systems for process control. These control systems, accompanied by software modules, are specifically adapted to industries. These industries are as follows:

- network carriers (energy, telecommunications, transport)
- industry (steel industry, process industry, machine and equipment construction, automotives, logistics)
- public clients and services

On the basis of these industries PSI Group is partitioned into the three business segments Network Management, Production Management and Information Management.

3.2 New Products and the New Releases 2005 as Growth Drivers for the coming Years

Examples:

Clients of the PSI Group are large energy producers and energy consumers. Energy costs constitute a high portion of production costs of manufacturing enterprises. The PSI metals EMS (Energy management system) supports the production enterprises with their energy consumption. PSI metals supports all production stages of for example a metallurgical plant. Maximum power limits of the energy reference contracts are kept.

Advantage of PSI products are the adaptive procedures developing on past data, which constantly improve prognoses and actually make possible also an automatic adjustment changing production processes. The PSI concept visualizes prognosis and actual values and considers the fed contractual reference borders.

Example "Power Supplier": Liberalisation of the energy markets in 2005

The energy markets are in motion. Amending the power industry law on basis of the new European Union guideline was adapted on 17.06.2005 by a new law. In the second half-year 2005 an adjustment authority for river and gas was furnished. Clarity prevails regarding the further market liberalisation. Because of rising competition among energy and gas producers efficient network systems are necessary. These systems, which PSI offers, contain the classical tasks of the network management, the instrumentation, the maintenance, planning and simulation of the net use up to the energy trade and drove out. Therefore we expect a special economic situation for PSI in this regard. The PSI company shows that large orders of considerable power suppliers e.g. Vattenfall Europe, RWE Energy, enviaM and MVV the energy AG could be received. It should be emphasized that PSI has been entrusted with the realization of the control systems for the German high- and highest voltage transmission system of E.ON as well as the Bavarian medium voltage net.



4. CONTACT

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Akkumulieren:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 10% und 20% aufweisen (ACCUMULATE).
Halten:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen 10% und - 10% aufweisen (HOLD).
Reduzieren:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung zwischen -10% und - 20% aufweisen (REDUCE).
Verkaufen:	Die Aktie wird auf Basis unserer Prognosen auf Sicht von 12 Monaten eine Kursentwicklung von mindestens - 20 % aufweisen (SELL).

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