

PSI AG (PSAN GR)

Order delays impact Q3 and 2011. Expect better things next year. Maintain Buy.

Key Takeaway

We expect the PSI share price to be under pressure today following the company's cut in 2011 earnings guidance. We believe orders have only been delayed and would use any weakness as a buying opportunity.

Guidance cut. PSI cut its 2011 EBIT guidance from €13-15m to €10-11m earlier today on the back of weakness in the German power business. This was what we had expected as we had spoken in recent weeks to many of the German Transmission System Operators (TSOs) and Distribution System Operators (DSOs). The takeaway was that orders for grid upgrades had been delayed but not postponed. We downgraded our estimates as a result.

Landmark decision impacts utilities and grid operators. The German government decision to exit nuclear has negatively impacted the utilities and it was thus not a surprise that RWE sold its majority stake in TSO Amprion in July. The German grid requires large investments in the coming years and Germany's largest power producer, RWE, was not prepared to make these investments given the need to decommission nuclear power stations and replace this lost capacity. In addition, discussions over legislation to support the grid build out in Germany caused grid operators to hold back on CAPEX plans. This legislation has now been passed so we expect orders to see a substantial pick up in investments next year.

Takeover possibility? We believe there are a host of companies who would like to take over PSI. We expect this speculation to only increase next year if RWE decides to sell its 18% stake in the company. We think this is highly likely given RWE's move away from transmission. We note that PSI peers Telvent and Ventyx were taken over at higher multiples than where PSI currently trades.

What to do. We would use any weakness in the coming days as an opportunity to acquire a stake in what is the best way to play the coming investments in the German grid as well as the smart grid.

BUY

Price target €20.65

Price €17.49

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Company Description

PSI AG (Products and Systems of Information Technology) is a leading supplier of software control systems for highly complex processes especially in the energy, resources and energy intensive businesses.

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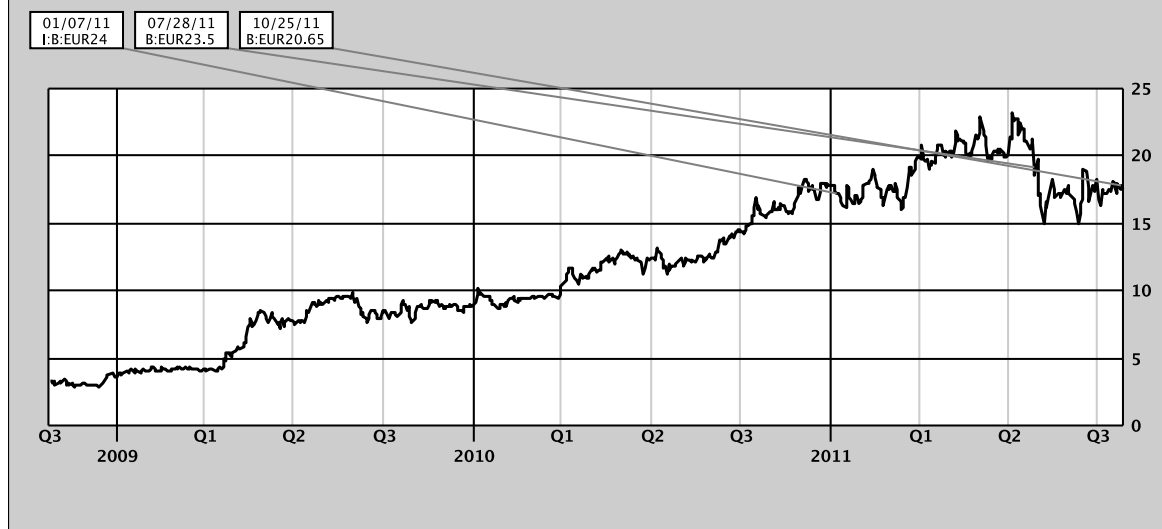
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Rating and Price Target History for: PSI AG (PSAN GR) as of 10-27-2011



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|--------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
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