

## HVB Equity Research

German Daily

Companies	Recommendation	Price	Price target
RWE	Neutral	EUR 55.15	EUR 51.00
Volkswagen	Neutral	EUR 51.35	EUR 50.00
Advanced Medien	Buy	EUR 2.30	EUR 3.20
Porsche	Neutral	EUR 613.00	EUR 688.00
Software AG	Outperform	EUR 36.92	EUR 46.00
<b>Equity Strategy</b>	Opinion Summary		

**RWE****Neutral**

EUR 55.15

Price target: EUR 51.00  
(prev. EUR 51.00)

(prev. Neutral)

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**Topic:** RWE sells remaining 30% of the RWE Umwelt business

**Our View:** The business, which was divided into five different regional areas, was sold to strategic investors including regional municipalities and private companies. RWE has consolidated revenues of approximately EUR 530 mn from these operations. Financial details of the deal were not disclosed. However, we do not expect significant book gains or losses from the disposal as RWE had booked an extraordinary write-off of EUR 292 mn in 2004 for the complete business when it sold 70% of RWE Umwelt to Remondis.

**Conclusion:** With the sale of the remaining 30% of RWE Umwelt the company's divestment program is almost concluded. Only the water activities outside RWE's core regions are still for sale. We do not expect significant book gains from the divestments.

## Volkswagen

Neutral

EUR 51.35

Price target: EUR 50.00  
(prev. EUR 50.00)

(prev. Neutral)

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**Topic: A)** The negotiations about production allocation of the new Golf SUV Marrakesch (market introduction 2007) came to a close. **B)** According to newspaper reports (FTD, FAZ) a struggle about supervisory board seats started.

**Our View: A)** It seems as if Wolfsburg is to produce the Marrakesch. This helps to lift capacity utilization (currently ~65%). But it remains unclear whether unions conceded to fully compensate for the EUR 1,000 per car cost gap between Wolfsburg and Palmela. A press conference is to follow this morning.

**B)** Apparently Porsche with its 20% stake intends to claim three seats in the supervisory board (Lower Saxony currently has two with 18% of ord. shares). Unclear is if Ferdinand Piech as former VW CEO and Porsche shareholder counts in the Porsche or the "neutral" field. Also Lower Saxony prime minister Christian Wulff is said to be against Piech to continue to act as chairman of the supervisory board. We think the 2% gap does not justify another seat (20 in total, 10 employee representatives). So the most obvious solution is that Lower Saxony and Porsche both get two seats and the "neutral" Piech stays on as supervisory board chairman. The potential conflicts of interests are not new, and have been known since Piech became CEO in 1993. The Piech family's unlisted Porsche Austria is a direct VW client as a general importer for VW and Audi for Austria and several Eastern European countries. In addition, they have a stake in listed Porsche AG, Zuffenhausen, which has a cooperation with VW (Cayenne/Touareg/Q7). But know with the prospective 20% stake his interests are more aligned with unrelated third party shareholders.

**Conclusion:** There is not enough information to judge the Marrakesch decision, yet. Less influence from Lower Saxony is good news for third party shareholders. In our view, added expertise from Porsche management in the supervisory board would improve corporate governance as a) they have better information about car markets which should enhance the quality of supervisory board discussions and b) they should also be interested to get decent returns from their substantial EUR 3.4 bn investment in VW shares.

## Advanced Medien

Buy

EUR 2.30

Price target: EUR 3.20  
(prev. EUR 3.20)

(prev. Buy)

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**Topic:** Apax, former major shareholders of Telcast precautionary exercises Put-Option, but states, that Advanced's exercise of its Call-Option was not for the purpose of the contract.

**Our View:** Telcast subsidiary earthTV is part of Advanced's new two pillar strategy (inflight entertainment and true reality TV). Last March, Advanced announced to take over Telcast in several steps. Apax, the former major shareholder of Telcast, has exercised its Put Option for the remaining 49% at a price of EUR 9.8 mn. Apax exercised the option in time, before the period ended last Friday. Furthermore, Apax has contradicted the Call Option, that Advanced itself exercised last July; Apax claims, that the Call Option was not used according to the agreement.

**Conclusion:** Naturally, Advanced states to have exercised the Call Option according to the contract. In any case, it is rather inconvenient, that it took Apax weeks to disagree with the Call option. A settlement of the dispute will last for some time, a positive outcome for Advanced is likely in our view. We stick to our Buy rating.

## Porsche

Neutral

EUR 613.00

Price target: EUR 688.00  
(prev. EUR 688.00)

(prev. Neutral)

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**Topic:** Analyst meeting at the Cayman launch. The discussion about the targeted stake in VW shows that there is more rational behind it.

**Our View:** Porsche repeated several times that the economic rational was the motivation to acquire the VW stake (20%). CFO Härter was confident that the profitability of Porsche will benefit from the participation in VW. He stressed that also with this asset Porsche wants to achieve 15% ROA. This means in our view that Porsche targets to achieve ca. EUR 400 mn in cost savings per year. Where do they come from? Porsche thinks that it can use the modules as well as some electrical parts from VW Group which in the meantime make up for 30-40% of a car's cost. Further savings should be achieved within the Hybrid cooperation which should save some hundred million euros as the cooperation is in our view (for the time being) limited to Cayenne. Porsche made clear that the return calculation was based on their own calculations which did not consider any upside from the Formotion program. CFO Härter made also clear Porsche remains a cash flow oriented company which should mean that the cash effective savings must be realized from 06/07 onwards. The purchase price will be financed out of existing liquidity and by a bond. It is still unclear where the 20% stake should come from as there seems to a problem to simply acquire the VW treasury shares (41 mn) If this is true we could imagine a capital increase excluding the subscription right for existing shareholders. The consolidation of the VW stake will be at equity which means that Porsche will include 20% of VW's net results in their p+l (participation income). If VW will achieve their EUR 5.1 bn PTP target in FY 2008 Porsche should consolidate up to EUR 40 per Porsche share as participation income. Beside the VW topic one should admit that the new Cayman is a brilliant car and sees acc. to the company high demand. Nearly all of the production for the current FY is already sold. Capacity in Stuttgart is nearly fully used for the 997 demand. In the last FY IFRS results should have increased by such an extent (lower tax rate!) that the end of the DVFA elimination had no impact on EPS.

**Conclusion:** As the deal has got a few more arguments which sound very logic in the way that it will support, protect or even enhance Porsche's profitability in the future we expect a certain recovery in the stock price for the next coming days as Porsche lost yesterday nearly EUR 1,25 bn in market cap. In addition the management will be on the road to explain even more detailed the rational behind its intention to acquire 20% stake in VW. Even though our price target would justify an outperform rating we keep our neutral rating for the time being.

## Software AG

Outperform

EUR 36.92

Price target: EUR 46.00  
(prev. EUR 46.00)

(prev. Outperform)

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**Topic:** Feedback from the analyst day in Darmstadt.

**Our View:** Software AG hosted yesterday an analyst briefing day in Darmstadt. The main topic was to explain to the investment community how the company wants to achieve its 10% y-o-y revenue growth target in 2006. Software AG expects single-digit growth in its Enterprise Transaction Systems (ETS) business. Add-on products like the SQL Gateway for Adabas or the Event Replicator for Adabas should drive growth. Software AG highlighted that it expects positive revenue impacts from the new IBM Z 9 series earliest by Q4/06 at the earliest. The XMLi segment is expected to post mid-double-digit growth. The target is to have a split of 50% new customers and 50% existing customers in this segment over the mid term. Another major factor to achieve the growth target will be the company's focus on emerging markets like Latin America or Eastern Europe. The market is here less mature compared to e.g. Western Europe or the USA and thus offers still significant growth potential.

**Conclusion:** We feel confident with regard to the cash cow ETS segment and think that this segment could bring further positive surprises even in 2006. In addition, we gained the impression that Software AG's partnership with Fujitsu in the BPM segment is gaining traction. Overall, we think the recent pull back in the share price offers a good opportunity to buy into the stock.

**Index Targets (6 month horizon):**

DAX	<b>5400 points</b>
Euro STOXX 50	<b>3600 points</b>

**Sector recommendations (STOXX 600 universe):**

Overweight	<b>Basic Resources, Insurance, Telecom</b>
Underweight	<b>Banks, Media, Retail</b>

**Country recommendation:**

Germany	<b>neutral</b>
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For further details, please see our weekly Strategy publication "Market Outlook" and the monthly "Local Product Germany" of HVB Equity Research.

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Company	Date	Product	Rating	Price target
Advanced Medien	03/14/05	CU	Buy	3.60
Advanced Medien	11/25/04	CF	Outperform	1.80
Porsche	09/26/05	CF	Neutral	688.00
Porsche	07/20/05	CF	Neutral	700.00
Porsche	06/15/05	CR	Buy	680.00
Porsche	01/13/05	CF	Buy	607.00
Porsche	09/02/04	SF	Buy	625.00
RWE	08/12/05	CU	Neutral	51.00
RWE	07/21/05	CF	Neutral	45.00
RWE	05/13/05	CU	Neutral	44.00
RWE	09/20/04	GD	Neutral	42.00
Software AG	08/01/05	CU	Outperform	46.00
Software AG	07/07/05	CU	Outperform	39.00
Software AG	05/31/05	CF	Outperform	35.00
Software AG	10/29/04	CF	Outperform	31.50
Volkswagen	08/01/05	CU	Neutral	44.00
Volkswagen	07/05/05	CF	Buy	44.00
Volkswagen	06/02/05	CF	Outperform	40.00
Volkswagen	04/21/05	CU	Buy	40.00
Volkswagen	01/28/05	SR	Outperform	40.00
Volkswagen	01/07/05	CF	Outperform	39.00
Volkswagen	11/03/04	CF	Underperform	29.00
Volkswagen	09/28/04	CF	Neutral	29.00
Volkswagen	09/02/04	SF	Neutral	34.00

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Sources: Thomson Financial Datastream, HVB Global Markets Research