

Fuchs Petrolub

FPEG.DE

Growing profits in mature markets

Buy

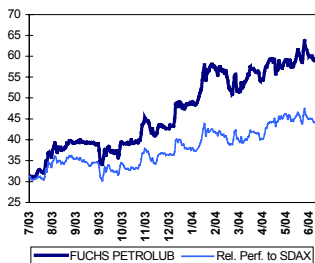
05/07/04

Analyst:

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Source: EcoWin

	2003	2004e	2005e	2006e	Performance [%]	-1m	-6m	-12m
Sales [€m]	1,040.9	1,076.3	1,113.5	1,149.2	Absolute	-3.31%	22.37%	80.91%
EBIT [€m]	75.1	83.8	102.7	106.6	Voting Share Price [€] (01/07/04)			59.39
EPS adj. GW [€]	5.31	6.54	7.02	7.41	Target Price Voting Share [€]			80.00
EPS growth [%]	68.6%	23.1%	7.3%	5.5%	Share up-/downside potential [%]			35%
DPS voting [€]	1.56	1.67	1.78	1.90	High/Low [12mth] [€]		65.00/32.11	
Dividend yield [%]	2.6%	2.8%	3.0%	3.2%	Free Float [%]			72%
P/E [x]	11.2	9.1	8.5	8.0	No. of shares [m]			7.9
EV/Sales [x]	0.7	0.6	0.6	0.6	Market Cap [€m]			466.8
EV/EBIT [x]	9.0	8.1	6.6	6.4	Average daily trading volume			na
Next Events:	Merck Finck & Co Company Contacts							
	Last Company Visit 19/04/04							
17 August 2004:	Next Roadshow/Visit Spring 2005							

Executive Summary

- Fuchs Petrolub is the #8 lubricant producer world wide, but by far the largest independent player, as #1-7 are all oil companies. We believe Fuchs Petrolub's independence is a major asset, as it means more flexibility, quicker time-to-market and better access to customers.
- Fuchs' strength is the niche area of speciality oils, which count for only 9% of the lubricant market, but for 31% of Fuchs' sales. Fuchs' speciality oil revenues have higher margins and should grow by about 3-4% p.a., outperforming the overall flat lubricants market. Other revenue growth drivers should be the expansion of the company's Asian and Eastern European business and smaller acquisitions. Overall, we expect Fuchs to grow its revenues by about 3-4% p.a. until 2005e. At the same time, we expect Net Income to grow by +22.5% in 2004e and +51.5% in 2005e. Reasons are a slightly improving EBIT margin, a better financial result and the end of regular goodwill amortisation from 2005e onwards.
- Fuchs Petrolub's business is a cash cow. 2003 Free Cash Flow equalled 7.5% of sales. We expect ongoing strong future FCF levels to allow Fuchs to further reduce its still high debt levels (gearing 158% by end of 2003). We expect mid-term gearing levels around 100-120%.
- We believe potential risks like FX, oil price, cyclicality exposure or competitive products are existent, but no major issue.
- In summary, we believe Fuchs Petrolub has a stable and favourable business outlook for 2004e and 2005e. In combination with PE levels of only 9.1 for 2004e and 8.5 for 2005e and the fact that the company is an EVA generator, we therefore rate Fuchs Petrolub a Buy with a price target of €80 per voting and preference share (+35% upside potential).

Equity Sales

Munich

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Merck Finck & Co Privatbankiers
is a member of the

Fuchs Petrolub

Buy

FPEG.DE Voting Price target €: 80.00

Voting Share Price €: 59.39 (01/07/04)

Profit & Loss Account

€m	2002	2003	2004e	2005e	2006e
Revenues	1,064.7	1,040.9	1,076.3	1,113.5	1,149.2
growth %	nm	-2.2%	3.4%	3.5%	3.2%
Gross profit	na	na	na	na	na
Gross margin %	nm	nm	nm	nm	nm
EBITA	85.0	94.4	98.8	102.7	106.6
EBITA margin %	8.0%	9.1%	9.2%	9.2%	9.3%
EBIT	70.0	75.1	83.8	102.7	106.6
EBIT margin %	6.6%	7.2%	7.8%	9.2%	9.3%
PBT	44.0	52.0	63.8	84.7	89.6
PBT margin %	4.1%	5.0%	5.9%	7.6%	7.8%
Extraord./adjustm.	0.0	0.0	0.0	0.0	0.0
Income tax	-19.9	-21.1	-26.0	-28.0	-29.6
Net profit	23.1	29.7	36.4	55.2	58.2
Net profit margin %	2.2%	2.9%	3.4%	5.0%	5.1%
No. of shares (m)	7.9	7.9	7.9	7.9	7.9
EPS basic (€)	3.15	4.03	4.63	7.02	7.41
EPS GW adj. (€)	4.63	5.31	6.54	7.02	7.41
DPS voting (€)	1.46	1.56	1.67	1.78	1.90
Book value	13.38	16.86	19.96	25.22	30.76
Gearing	289.9%	158.4%	130.5%	na	na
Equity ratio	15.5%	20.8%	23.9%	28.8%	33.5%
ROE	22.0%	22.4%	23.2%	27.8%	24.1%
Enterprise value	676.74	676.74	676.74	676.74	676.74

Valuation

EVA based fair value (€):	88.68				
	2002	2003	2004e	2005e	2006e
PER	12.83	11.18	9.08	8.46	8.02
Net dividend yield	2.46%	2.63%	2.81%	3.00%	3.20%
EV/Sales	0.64	0.65	0.63	0.61	0.59
EV/EBITA	7.96	7.17	6.85	6.59	6.35
EV/EBIT	9.67	9.01	8.08	6.59	6.35
Price/Book	4.44	3.52	2.98	2.35	1.93

Revenues - Interim Reports

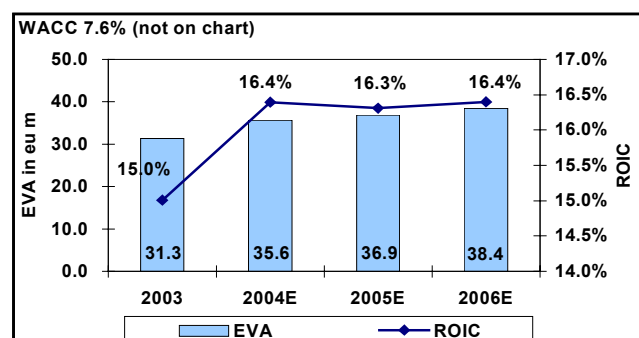
€m	2002	2003	2004e	2005e	2006e
Q1	na	263.4	266.9	276.1	285.0
Q2	na	259.2	266.0	275.2	284.0
Q3	na	262.9	275.0	284.5	293.6
Q4	na	255.4	268.4	277.7	286.6
H1	na	522.6	532.9	551.4	569.0
H2	na	518.3	543.4	562.2	580.2
FY	na	1,040.9	1,076.3	1,113.5	1,149.2

Revenues - Divisional

€m	2002	2003	2004e	2005e	2006e
Europe	717.2	694.4	709.0	717.8	726.8
Americas	216.7	192.7	190.8	197.5	204.4
Asia-Pacific/Africa	147.8	174.8	197.5	219.3	239.0
Other	0.0	0.0	0.0	0.0	0.0
Holding/Consol.	-17.0	-21.0	-21.0	-21.0	-21.0

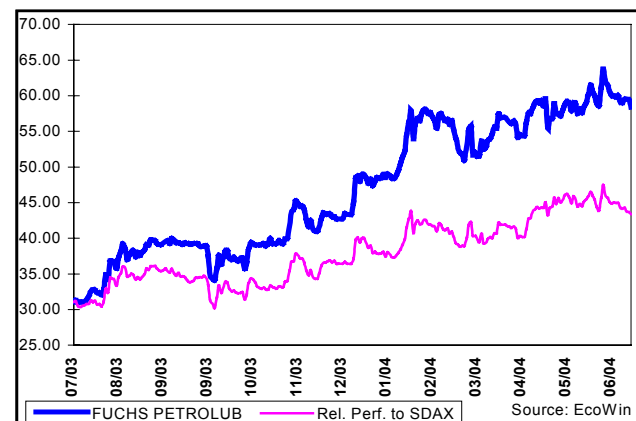
Total 1,064.7 1,040.9 1,076.3 1,113.5 1,149.2

ROIC & EVA



Company Information

Market capitalisation €m:	466.8
SDAX-weighting:	na
Free float in %:	72% (voting 44%, pref. 100%)
Major shareholder:	Fuchs family (46.3% of voting shares)
Accounting Standard:	IFRS



Corporate Outlook Summary

Outlook 2004:	neutral - positive
Outlook 2005:	neutral - positive
Outlook 2006 and beyond:	neutral - positive

Next Event

17 August 2004: Q2 figures
Analyst: Robert Heberger

EBIT - Interim Reports

€m	2002	2003	2004e	2005e	2006e
Q1	na	17.3	20.3	25.5	26.4
Q2	na	18.8	21.0	25.4	26.3
Q3	na	22.2	24.0	26.2	27.2
Q4	na	16.8	18.5	25.6	26.6
H1	na	36.1	41.3	50.9	52.8
H2	na	39.0	42.5	51.9	53.8
FY	na	75.1	83.8	102.7	106.6

EBIT - Divisional

€m	2002	2003	2004e	2005e	2006e
Europe	44.9	53.9	57.2	65.3	66.4
Americas	25.6	22.9	23.8	29.8	30.9
Asia-Pacific/Africa	9.6	5.1	10.3	14.3	16.3
Other	0.0	0.0	0.0	0.0	0.0
Holding/Consol.	-10.1	-6.8	-7.5	-6.7	-6.9

Total 70.0 75.1 83.8 102.7 106.6

SWOT Analysis

Strength	Weakness
#1 independent lubricant manufacturer	High debt (which Fuchs can afford due to high FCF)
Strength in high-margin niche products	Not well known in financial community outside Germany
Cash cow, Low valuation	
Opportunities	Threats
Acquisition of smaller niche players	Dependency on base oil prices
Growth in Asia	Reliance on automotive industry (about 37% of sales)
Internal growth in niche products	Reliance on economy (but only about 25% of sales)

Investment Case Summary

Fuchs Petrolub develops, produces and distributes lubricants and other speciality oils for engines, engineering machinery and other technical devices. Fuchs is a global player, generating 62% of its 2003 revenues in Europe, 19% in the Americas and 19% in Asia-Pacific/Africa. The company runs 50 production plants across all continents and has more than 113,000 customers globally. Fuchs Petrolub is the 8th largest lubricants manufacturer world wide, but by far the largest independent player, as #1-7 are all oil companies, for which lubricants in most of all cases is only a non-core business. We see Fuchs Petrolub's independence as a major asset, as it means more flexibility, quicker time-to-market and better access to new and existing customers.

Fuchs Petrolub's strength is the niche area of speciality oils, which count for about 31% of Fuchs Petrolub's revenues, but only 9% of the total lubricant market. Speciality oils offer higher margins and less price pressure than regular lubricants. In addition, we expect speciality oil market growth rates (in €) to be about +1% in Western Europe/North America and +3.5% in Asia, which is slightly above our expectations regarding the overall lubricants market of 0% to -1.5% in Western Europe/North America and +2% in Asia. We expect Fuchs' revenues from speciality oils to outperform market growth and to grow by about 3-4% p.a.. Other revenue growth drivers should be the expansion of Fuchs' Asian and Eastern European business activities and external growth through smaller acquisitions. Overall, we expect Fuchs to grow its revenues by about 3-4% p.a. in 2004e and 2005e and by similar growth rates beyond.

Regarding Net Income, we expect a +22.5% growth in 2004e (Q1 2004: +53%) and a +51.5% growth in 2005e. Reasons are a 1) slightly improving EBIT margin (2004e: 7.8% after 7.2% in 2003) due to an improved product mix (innovations and focus on speciality oils) and margin improvements in Asia, 2) an improved financial result due to ongoing debt reduction in 2004e onwards and 3) a lower goodwill amortisation in 2004e and the end of goodwill amortisation from 2005e onwards.

Fuchs Petrolub has comparatively high debt levels of € 239m, resulting in a gearing level of 158% as of end 2003. However, on the other hand, we believe Fuchs Petrolub's business is a cash cow. For example, in 2003 low capex needs and stable cash inflow resulted in a strong Free Cash Flow of € 77.6m, equalling 7.5% of sales. The strong FCF in 2003 enabled Fuchs Petrolub to reduce its net debt by around € 95m during 2003. Mid-term (i.e. within the next 5 years) we believe Fuchs Petrolub, if wanted, could easily reduce its net debt levels to € 0. However, due to its stable cash inflows and low capex needs, Fuchs can afford to have comparatively high debt levels. Consequently, we believe Fuchs mid-term wants to keep its gearing at levels around 100-120%, with positive effects on return on equity. Instead, we believe Fuchs intends to use its excess cash for moderately increasing dividends, but mainly for acquisitions.

We believe potential risks like FX or oil price exposure, cyclicity exposure or competitive products are existent, but no major issue. In particular the exposure to oil price fluctuations is limited by the fact that swings in base oil, which is Fuchs' major raw material, are much smoother than in crude oil and that Fuchs - due to its strong market position - expects to continue being able to largely forward purchase price increases to its customers.

In summary, we believe Fuchs has a stable and favourable business outlook for 2004e and 2005e. In combination with PE levels of only 9.1 for 2004e and 8.5 for 2005e and the fact that the company generates significantly positive EVA (economic value added) and Free Cash Flow levels, we therefore rate Fuchs Petrolub a Buy with a price target of € 80 per voting and preference share, equalling an upside potential of +35% based on current levels.

Fuchs Petrolub is by far the world's largest independent lubricant manufacturer

3-4% p.a. revenue growth from niche products, Asia and smaller acquisitions

Slight margin improvements, better financial result and end of goodwill amortisation as main Net Income drivers

Fuchs Petrolub's business is a cash cow

Potential risks like FX, oil price, cyclicity or competitive products are limited

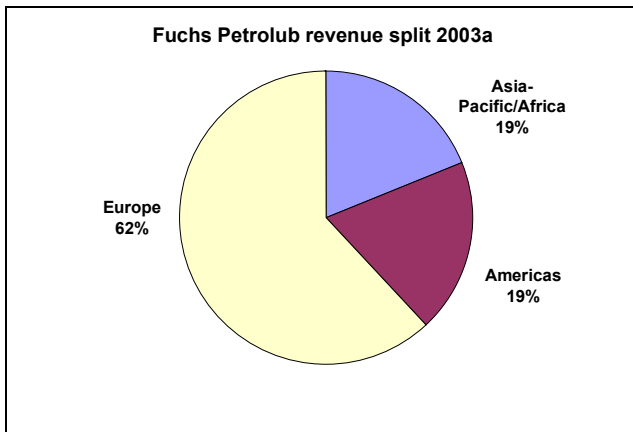
Buy, price target € 80 per voting and preference share

Fundamental analysis

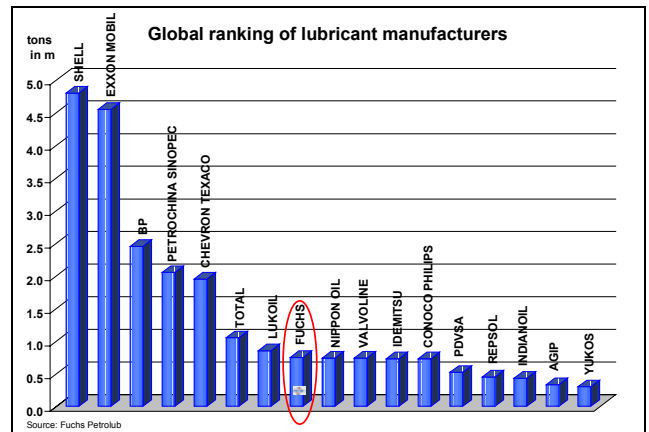
Overview

Fuchs Petrolub was founded in 1931. The company develops, produces and distributes lubricants and other special oils for engines, engineering machinery and other technical devices. Fuchs is a global player, in 2003 generating 62% of its revenues in Europe (49% in €), 19% in the Americas and 19% in Asia-Pacific/Africa. The company runs 50 production plants across all continents and has more than 113,000 customers globally. Fuchs Petrolub is the 8th largest lubricants manufacturer world wide. However, Fuchs is by far the largest independent player, as #1-7 are all oil companies, for which lubricants in most of all cases are only a non-core business. We see Fuchs Petrolub's independence as a major asset, as it means more flexibility, quicker time-to-market and better access to new and existing customers.

Fuchs Petrolub is the world's largest independent lubricant manufacturer

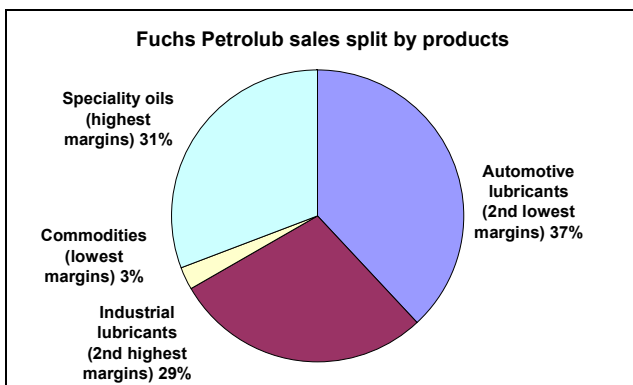


Source: Fuchs Petrolub

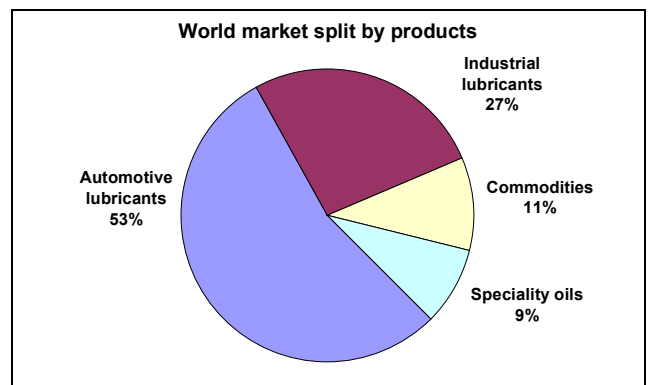


In 2003a, the company generated about 37% out of its €1,041m revenues with automotive lubricants (thereof about 20% to OEM's like BMW or VW, 50% fleet management and 30% retail) and 63% with industrial lubricants (thereof majority direct distribution to customers like mining or metalworking companies). Industrial lubricants include speciality oils, where Fuchs Petrolub, with 31% of 2003 sales, has its focus on.

Fuchs Petrolub's focus is the niche market of speciality oils



Source: Fuchs Petrolub



The total lubricants market counts for about 35.4m tons p.a. and is split between about 180 oil companies and about 1,200 independent players, which almost all lack size, resources and global presence. The top 14 player (equalling 1% of total 1,380 players) account for about 60% of the market, the residual 99% for 40%. This high fragmentation offers interesting acquisition opportunities of smaller competitors (€ 10-15m in revenues), which Fuchs Petrolub will continue to utilise. Mid-term even a larger acquisition (about € 100-300m in revenues) might be on the agenda (see page 9).

Opportunity to expand strong position as niche player through acquisitions

Focus of these acquisitions will be to strengthen Fuchs Petrolub's above mentioned dominant position as a niche player for speciality oils including metalworking fluids, corrosion preventives and greases. The acquisition of the metalworking lubricants division of WYNN'S France in Nov. 2003 acts as an example. These speciality oils are highly complex to develop and to adapt to the requirements of the customers and thus enjoy about 1.6 times higher margins, less price pressure (+1% p.a. vs. about -2% p.a.) and higher market growth rates (about +2% in € terms) compared to other automotive or industrial oils (flat overall world market). Therefore Fuchs Petrolub enjoyed a strong 9.1% group EBITA margin in 2003a (2002a: 8.0%).

Region-wise, Fuchs Petrolub by almost 80% of sales acts in the mature markets Europe (growth only in Eastern Europe) and North America, where we expect the total lubricant market to rather shrink than to grow (about 0% to -1.5% p.a. in € in 2004e and 2005e). We only expect the Asian market to grow by about +2% p.a. within the same time period. So how to grow in predominantly mature markets?

How to grow in mature markets?

Future top line growth drivers

We expect a stable business outlook for Fuchs Petrolub in 2004e and 2005e. We expect Fuchs Petrolub to grow its revenues - after a mainly FX related -2.2% revenue decline in 2003 (excl. FX +4.2%, thereof +3.8% organic and +0.4% acquisitions) - by about 3-4% p.a. and therefore to outperform market growth. However, ongoing currency fluctuations make a precise forecast difficult. In Q1 2004 revenues grew by +1.3% (excl. FX +5.4%). We expect the three main future top line growth drivers to be:

3-4% p.a. revenue growth from Asia, niche products and acquisitions

1. Above market growth in growth regions Asia and Eastern Europe.
2. Continuous focus on speciality oils, where we expect Fuchs Petrolub to grow by about 3-4% p.a. until 2005e.
3. Growth through acquisitions, which on average should count for about 1-1.5% out of 3-4% total revenue growth p.a.. Focus will be on smaller targets (around €10m revenues) in Europe and North America in the speciality oil niche. Larger acquisitions (around € 100-300m revenues) are possible mid-term, but currently are rather unlikely (see page 9) and therefore not included in our model.

eu m	2002a	2003a	2004e	2005e	2006e	2007e
Revenues	1,064.7	1,040.9	1,076.3	1,113.5	1,149.2	1,184.5
% growth y-o-y		-2.2%	3.4%	3.5%	3.2%	3.1%
Europe	717.2	694.4	709.0	717.8	726.8	735.9
% growth y-o-y		-3.2%	2.1%	1.3%	1.3%	1.3%
Americas	216.7	192.7	190.8	197.5	204.4	211.5
% growth y-o-y		-11.1%	-1.0%	3.5%	3.5%	3.5%
Asia-Pacific/Africa	147.8	174.8	197.5	219.3	239.0	258.1
% growth y-o-y		nm	13.0%	11.0%	9.0%	8.0%
Holding/consolidation	-17.0	-21.0	-21.0	-21.0	-21.0	-21.0
% growth y-o-y		-9.0%	0.0%	0.0%	0.0%	0.0%

Source: Fuchs Petrolub, MeFiCo estimates

Future margin and profit development

Regarding Net Income, we expect a +22.5% growth in 2004e and a +51.5% growth in 2005e. Reasons are:

1. A slightly improving EBIT margin (7.8% in 2004e after 7.2% in 2003a and 6.6% in 2002a) due to an improved product mix (innovations and focus on speciality oils), and margin improvements in Asia, where goodwill impairment write-offs burdened EBIT margins in 2003.
2. An improved financial result due to ongoing debt reduction in 2004e onwards.
3. A lower goodwill amortisation in 2004e and the end of goodwill amortisation from 2005e onwards.

Slight margin improvements, better financial result and end of goodwill amortisation as main Net Income drivers

eu m	2002a	2003a	2004e	2005e	2006e	2007e
EBITA	85.0	94.4	98.8	102.7	106.6	110.3
<i>as % of sales</i>	8.0%	9.1%	9.2%	9.2%	9.3%	9.3%
<i>% growth y-o-y</i>		11.1%	4.7%	4.0%	3.8%	3.5%
Goodwill amortisation	-15.0	-19.3	-15.0	0.0	0.0	0.0
EBIT	70.0	75.1	83.8	102.7	106.6	110.3
<i>as % of sales</i>	6.6%	7.2%	7.8%	9.2%	9.3%	9.3%
<i>% growth y-o-y</i>		7.3%	11.6%	22.6%	3.8%	3.5%
Europe	44.9	53.9	57.2	65.3	66.4	67.2
<i>as % of divisional sales</i>	6.3%	7.8%	8.1%	9.1%	9.1%	9.1%
<i>% growth y-o-y</i>		20.0%	6.2%	14.2%	1.6%	1.3%
Americas	25.6	22.9	23.8	29.8	30.9	31.9
<i>as % of divisional sales</i>	11.8%	11.9%	12.5%	15.1%	15.1%	15.1%
<i>% growth y-o-y</i>		-10.5%	4.1%	25.0%	3.5%	3.5%
Asia-Pacific/Africa	9.6	5.1	10.3	14.3	16.3	18.3
<i>as % of divisional sales</i>	6.5%	2.9%	5.2%	6.5%	6.8%	7.1%
<i>% growth y-o-y</i>		-46.9%	101.4%	38.8%	14.0%	12.8%
Holding/consolidation	-10.1	-6.8	-7.5	-6.7	-6.9	-7.1
<i>as % of total sales</i>	-0.9%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%
<i>% growth y-o-y</i>		-32.7%	10.8%	-11.3%	3.2%	3.1%
Financial Result	-26.0	-23.1	-20.0	-18.0	-17.0	-16.0
EBT	44.0	52.0	63.8	84.7	89.6	94.3
<i>as % of total sales</i>	4.1%	5.0%	5.9%	7.6%	7.8%	8.0%
<i>% growth y-o-y</i>		18.2%	22.7%	32.8%	5.7%	5.3%
Extraordinary Result	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-19.9	-21.1	-26.0	-28.0	-29.6	-31.1
<i>% of EBTA</i>	33.7%	29.6%	33.0%	33.0%	33.0%	33.0%
Minorities	-1.0	-1.2	-1.4	-1.6	-1.8	-1.8
Net income	23.1	29.7	36.4	55.2	58.2	61.4
<i>as % of sales</i>	2.2%	2.9%	3.4%	5.0%	5.1%	5.2%
<i>% growth y-o-y</i>		28.6%	22.5%	51.5%	5.5%	5.5%
EPS basic (eu)	3.15	4.03	4.63	7.02	7.41	7.81
<i>% growth y-o-y</i>		27.9%	14.9%	51.5%	5.5%	5.5%
EPS excl. goodwill amort. (eu)	4.63	5.31	6.54	7.02	7.41	7.81
<i>% growth y-o-y</i>		14.7%	23.1%	7.3%	5.5%	5.5%
Dividend per voting share (eu)	1.46	1.56	1.67	1.78	1.90	1.95
<i>% growth y-o-y</i>		6.8%	7.1%	6.6%	6.7%	2.6%
Dividend per pref. share (eu)	1.63	1.73	1.84	1.95	2.07	2.12
<i>% growth y-o-y</i>		6.1%	6.4%	6.0%	6.2%	2.4%

Source: Fuchs Petrolub, MeFiCo estimates

Review of 2003 and Q1 2004 results and corporate guidance for 2004

Our forecasts of increasing profitability are confirmed by 2003 and Q1 2004 figures, which saw a significantly improved profitability compared to the respective prior years period. In particular Q1 2004a Net Income saw an impressive growth of +53% due to an improved general cost efficiency, lower interest expenses and a lower tax rate. However, Fuchs Petrolub stated that the profit increase in Q1 cannot be extrapolated for full year 2004, as Q1 2003 also was a comparatively weak quarter. Fuchs Petrolub's full year guidance is a low double digit increase in Net Income. Considering the +53% increase in Q1 and the quite favourable outlook for the rest of the year, we believe this guidance is conservative. Our estimate is a Net Income increase of +22.5% (see model above).

Strong performance in a difficult environment in 2003 and Q1 2004

eu m	2002a	2003a	Q1 2003a	Q1 2004a
Revenues	1,064.7	1,040.9	263.4	266.9
<i>% growth y-o-y</i>		-2.2%		1.3%
EBITA	85.0	94.4	20.0	23.6
<i>as % of sales</i>	8.0%	9.1%	7.6%	8.8%
<i>% growth y-o-y</i>		11.1%		18.0%
Goodwill amortisation	-15.0	-19.3	-2.7	-3.3
EBIT	70.0	75.1	17.3	20.3
<i>as % of sales</i>	6.6%	7.2%	6.6%	7.6%
<i>% growth y-o-y</i>		7.3%		17.1%
Financial Result	-26.0	-23.1	-6.0	-4.7
Tax	-19.9	-21.1	-5.2	-6.4
<i>% of EBTA</i>	33.7%	29.6%	37.1%	33.9%
Minorities	-1.0	-1.2	-0.3	-0.3
Net income	23.1	29.7	5.8	8.9
<i>as % of sales</i>	2.2%	2.9%	2.2%	3.3%
<i>% growth y-o-y</i>		28.6%		52.6%
EPS basic (eu)	3.15	4.03	0.81	1.13
<i>% growth y-o-y</i>		27.9%		39.0%

Source: Fuchs Petrolub

Potential risks

Regarding risks, we do not see a major FX risk. As a global player, the company has a high (unavoidable) translation exposure to the \$ and other currencies, but only a limited exposure to the dangerous transaction risk, due to a high degree (about 90%) of natural hedging. Actually, Fuchs Petrolub in 2003 benefited from a weaker \$, as base oil prices are quoted in \$.

Low FX risk

Regarding raw materials, one could assume Fuchs is heavily exposed to crude oil price movements. However, this is only to a minor extent the case. First, one needs to know that the raw material for Fuchs is not crude oil, but base oil. The company buys its base oil needs by 50% from Exxon and Shell and by 50% from local players, but due to lack of availability Fuchs Petrolub has no long-term contracts or financial hedges to protect itself against movements in base oil prices. We see this as a weakness, but on the other hand there are three reasons why we believe there will be - if at all - only a minor negative impact from base oil price movements in the future:

Oil price risk is existent,...

First, the price for base oil is only partially linked to crude oil price developments. A rough formula to calculate the base oil price is as follows:

...but lower than one might expect

crude oil price + refinery margin = base oil price

Currently the parameters are as follows:

(7 barrels/ton * \$35/barrel Brent) + \$ 100-200 margin range = \$245/ton crude oil price + currently about \$170/ton margin = current base oil price \$415/ton

However, it is important to know that the refinery margin tends to decline if crude oil prices increase and vice versa, i.e. there is a smoothing effect. For example, despite an increase in crude oil prices (Brent) from levels around \$ 30 per barrel in January 2004 to levels of about \$ 35 as of 1 July, the price level for base oil within the same time period remained more or less stable at levels slightly above \$ 400/ton. Therefore an increase in crude oil prices does not necessarily mean an automatic increase in base oil prices. This also is the reason why it does not make sense for Fuchs Petrolub to do financial hedges on crude oil.

Second, a strong € (in 2003) has a compensating effect on rising base oil prices, which are quoted in \$. And finally, Fuchs has a strong market position and therefore expects to continue being able to forward base oil price increases - if applicable - to a large extent to its customers. In summary, we therefore believe Fuchs has an oil price risk exposure, but the exposure is limited and smaller than one could assume on first glance.

Other risks for Fuchs Petrolub might include cyclicality exposure and dependence on large customers. Regarding cyclicality exposure, Fuchs serves many different industries with different cycles, which tends to have a diversifying effect. In addition, lubricants in many cases are a base need for Fuchs Petrolub's clients, i.e. the need is largely independent from the current economic cycle. Therefore we believe there is some cyclicality exposure, but it is no major issue. According to Fuchs, only 25% of sales depend on economic cycles. Regarding customer dependency, Fuchs Petrolub's single largest customers come from the Automotive industry. However, the #1, Volkswagen, only counts for about 3% of total Fuchs revenues and the top 10 only for about 10-15% of total revenues.

Low to medium cyclicality exposure, low dependence on large customers

Regarding potential new competition or alternative products, we believe Fuchs Petrolub's competitive advantage period with regard to its main strength, the know-how in the speciality oil area, is - dependent on the specific product - on average about 2 years. Therefore we believe entry barriers, while low for regular lubricants and commodity oils, are fairly high in the speciality oil area. Fuchs in 2002 and 2003 spent around 2.2% of revenues in R&D and bought some smaller niche players in order to protect or even expand this know-how advantage regarding speciality oils.

Fairly high entry barriers for speciality oils

Free Cash Flow generation, debt development and use of excess cash

Fuchs Petrolub has comparatively high debt levels of € 239m (thereof € 51m participation rights capital), resulting in a gearing level of 158% as of end 2003 (2002: 290%). However, on the other hand, we believe Fuchs Petrolub's business is a cash cow. For example, in 2003 low capex needs (€18m in 2003a, €24m in 2004e) and a stable cash inflow resulted in a strong Free Cash Flow of € 77.6m, equalling 7.5% of sales (see table below). The strong FCF in 2003 enabled Fuchs Petrolub to reduce its net debt by around € 95m during 2003. In addition, Fuchs Petrolub strengthened its equity base by a rights issue end of 2003 in context of the metalworking lubricants division acquisition from WYNN'S. Q1 2004 FCF was € -7m, but excluding € 14.5m acquisitions related cash payments (mainly for WYNN'S metalworking division), Q1 FCF was € +7.5m, equalling 2.8% of sales (which due to seasonality effects is lower than full year figures) after 1.7% in Q1 2003.

High, but declining debt levels due to strong FCF

Cash Flow (eu bn)	2002a	2003a
Cash Flow before WC changes	76.2	79.6
WC changes	2.3	9.5
Cash Flow from operating activities	78.5	89.1
Cash Flow from investing activities	-30.5	-11.5
Free Cash Flow	48.0	77.6
as % of sales	4.5%	7.5%
Cash Flow from financing activities	-60.0	-60.3
Consolidation & FX adjustments	-1.6	-1.4
(Decrease)/Increase in cash	-13.6	15.9
Cash at beginning of period	27.1	13.5
Cash at end of period	13.5	29.4

Source: Fuchs Petrolub

For the next two years, we expect Fuchs Petrolub to see ongoing strong and stable FCF's and declining debt levels, except if a - currently unlikely - larger acquisition is on the agenda. These lower debt levels should have a significantly positive effect on interest expenses and consequently on Net Income in 2004 and 2005. Mid-term (i.e. within the next 5 years) we believe Fuchs Petrolub, if wanted, could easily reduce its net debt levels to € 0. However, due to its stable cash inflows and low capex needs, Fuchs can afford to have comparatively high debt levels. Consequently, we believe Fuchs mid-term wants to keep its gearing at levels around 100-120%, with positive effects on returns on equity. Instead, Fuchs intends to use its excess cash for moderately increasing dividends, but mainly for acquisitions. Fuchs has no share buy-back programme.

Fuchs can afford to mid-term keep its gearing levels high

We believe besides making smaller acquisitions, Fuchs Petrolub currently is building up a financial war chest in order to be prepared for a larger acquisition, in case there might be a future opportunity. However, from our talks with management we got the impression that such a large acquisition will - if at all - not happen short-term, but only from - we estimate - about H2 2005 onwards. We did not include such a larger acquisition in our model. Below is a list of larger independent competitors, which might include a potential acquisition target for Fuchs Petrolub.

Fuchs to build up a war chest for a potential larger acquisition

Uncomplete list of larger independent lubricant manufacturers:

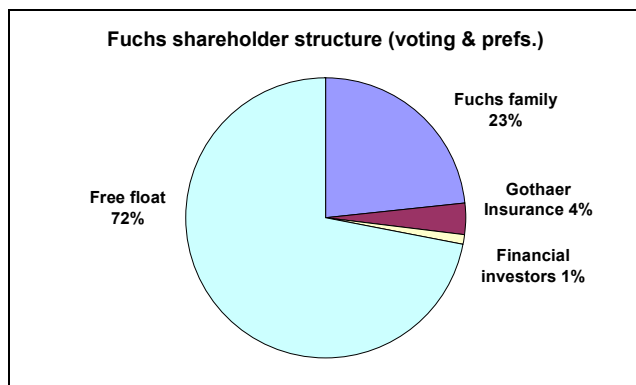
Company name	Country	Revenues 2003 (approx.)	Focus of activity	Comment
Klueber	Germany	€ 375m	Speciality oils	not listed, part of Freudenberg group
Quaker	USA	€ 300m	Metalworking fluids (focus: rolling oils)	listed
Houghton	USA	€ 270m	Metalworking fluids	not listed
Yushiro	Japan	€ 140m	Metalworking fluids	listed
Stuart	USA	€ 110m	Metalworking fluids	not listed
Milacron	USA	€ 90m	Metalworking fluids	not listed
For comparison:				
Fuchs Petrolub	Germany	€ 1,041m	Metalworking fluids, speciality oils, auto, greases	listed

Source: Fuchs Petrolub, Merck Finck & Co

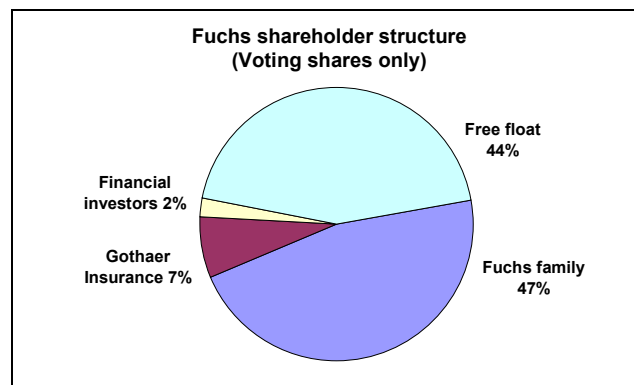
Shareholder structure

Fuchs Petrolub's current market cap is around €467m. The total number of shares of 7.86m is split into 50% voting shares (price 1 July: €59.39) and 50% preference shares (price 1 July: € 59.40). The preference shares are listed in the SDAX and show higher trading volumes. The total Free Float is high at 72% (preferred stock 100%), but the company is protected against hostile take-overs through a pooling agreement regarding its voting shares between the Fuchs family and the Gothaer Insurance, which together hold 53.7% of voting shares.

High Free Float



Source: Fuchs Petrolub



Summary

We expect Fuchs Petrolub to see a stable business outlook for 2004e and 2005e, with a revenue growth of about 3-4% p.a. We expect the bottom line to see growth rates of +22.5% in 2004e and +52.5% in 2005e, due to a slightly improved EBIT margin, a significantly better financial result and the end of goodwill amortisation (in 2005). Finally, we expect Fuchs to continue generating significantly positive Free Cash Flows. In combination with PE levels of below 10 (see valuation chapter), we therefore rate Fuchs Petrolub a Buy with a price target of € 80 per voting and preference share, equalling an upside potential of 35%.

**Buy rating, price target
€ 80 per voting and
preference share**

Valuation

Our valuation tools are peer group valuation and EVA analysis.

Two valuation tools

Peer group valuation

We focus on PE multiples for 2004e, 2005e and 2006e, as we believe most investors focus on PE multiples. In a first step, we compared Fuchs Petrolub's PE levels with German automotive suppliers, as the Automotive industry is the largest single customer group for Fuchs Petrolub. We show Fuchs Petrolub figures for both, basic EPS figures and EPS figures adjusted for goodwill amortisation. From 2005 onwards these figures will be identical, as no regular goodwill amortisation will be necessary anymore under new IFRS rules. However, we believe even for 2004 EPS excluding goodwill amortisation is the more relevant figure, as this figure better reflects the economic reality and we also stripped out goodwill amortisation for the peers, if applicable.

**First peer group:
German Automotive
suppliers**

Fuchs Petrolub currently trades at PE levels of 9.1, 8.5 and 8.0 for 2004e, 2005e and 2006e. We believe these multiples, both in absolute terms and compared to other Automotive suppliers, are on low levels and thus should leave significant share price upside potential for Fuchs Petrolub.

**Fuchs Petrolub has low
PE levels**

PE multiples	PE 2004	PE 2005	PE 2006
ElringKlinger	15.5	13.9	13.6
Beru*	15.7	14.0	13.4
Leoni	13.3	9.7	8.5
Paragon	19.2	12.7	10.0
Fuchs Petrolub (basic EPS)	12.8	8.5	8.0
Fuchs Petrolub (EPS GW adj.)	9.1	8.5	8.0
Continental	10.9	9.9	9.4
Average excl. Fuchs	14.9	12.1	11.0

* based on IBES estimates

Comparing profit margins, Fuchs Petrolub has EBITA margins which are in the middle of our German Automotive supplier universe.

Fuchs Petrolub's margins are in the middle of our universe

EBITA margins	2004e	2005e	2006e
ElringKlinger	14.5%	15.3%	15.3%
Beru*	16.7%	16.8%	16.6%
Leoni	5.1%	5.7%	5.9%
Paragon	9.4%	11.5%	12.1%
Fuchs Petrolub	9.2%	9.2%	9.3%
Continental	8.3%	8.3%	8.4%
Average excl. Fuchs	10.8%	11.5%	11.7%

* based on IBES estimates

We therefore argue that Fuchs Petrolub should trade at similar PE levels than its peer group. Applying above average peer group multiples, we derive Fuchs Petrolub share price levels between € 81 and € 98.

We believe Fuchs Petrolub should trade at similar PE levels than peer group

	2004e	2005e	2006e
Average PE	14.9	12.1	11.0
x Fuchs EPS	6.54	7.02	7.41
= Implicit Fuchs share price	97.59	84.58	81.41
/ Current Fuchs share price	59.39	59.39	59.39
= Upside potential	64%	42%	37%

Source: MeFiCo

In a second step, we compared Fuchs Petrolub with other independent, international lubricant manufacturers. Unfortunately, the universe of and the information about such companies is limited, as most peers are either not listed, too small, loss-making or do not have their focus on lubricants (i.e. the big oil companies). However, we found two listed peers.

Only limited universe of international lubricant competitors

PE multiples	PE 2004	PE 2005
Quaker (USA)*	16.5	14.6
Yushiro (Japan)*	17.0	14.9
Average	16.8	14.7

* based on IBES estimates

Based on the PE multiples of these peers, we derive even higher Fuchs Petrolub share price levels of between € 103 and € 110.

Even higher price range based on competitors PE multiples

	2004e	2005e
Average PE	16.8	14.7
x Fuchs EPS	6.54	7.02
= Implicit Fuchs share price	109.53	103.35
/ Current Fuchs share price	59.39	59.39
= Upside potential	84%	74%

Source: MeFiCo

EVA analysis

Our EVA analysis assumptions are as follows:

- An explicit 10 years forecast horizon until 2013
- A terminal value without growth rate based on forecast year 11 (2014)
- A WACC of 7.6%, which is based on a market premium of 5.0%, a Beta of 0.95 and a risk-less interest rate of 4.3%.

Applying our EVA valuation, we derive fair value of € 89 per share, equalling an upside potential of 49% compared to current levels and confirming our findings from peer group valuation.

Our EVA assumptions

EVA: fair value € 89 per share

EVA valuation Fuchs Petrolub	eu m
Cumulative PV of EVA 2004E-2013E	259.9
Terminal Value	237.0
Total PV of EVA	496.9
Beginning Invested Capital	403.8
Enterprise Value	900.7
Minus Net Debt (Plus Net Cash)	-209.9
Add Financial Assets	11.6
Less Minorities	-5.4
Fair Equity Value	697.0
Number of shares in million (voting + pref.)	7.9
Fair Value per share (Eu)	88.68
Current Voting Share Price (Eu)	59.39
Delta to current voting share price	49.3%

Source: Mefico estimates

Even when applying different assumptions for beta and the market risk premium than in our base scenario above, we derive significant upside potentials for Fuchs Petrolub's share price in most of all cases.

Scenario analysis confirms upside potential

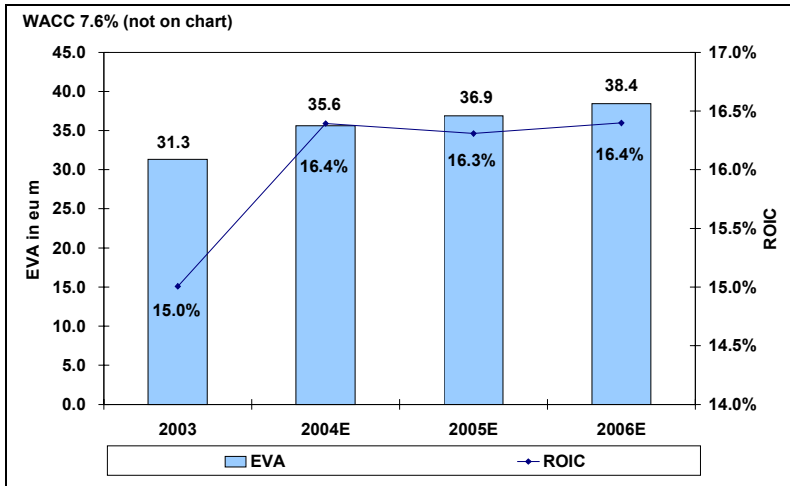
Fair value (in eu) as a function of market premium & beta

Risk premium	Beta				
	0.75	0.85	0.95	1.05	1.15
3.0%	122.00	117.05	112.41	108.05	103.95
4.0%	110.20	104.62	99.47	94.69	90.26
5.0%	100.09	94.12	88.68	83.69	79.10
6.0%	91.34	85.14	79.54	74.46	69.83
7.0%	83.69	77.37	71.71	66.62	62.01

Source: Mefico estimates

In addition, the EVA chart below shows that Fuchs Petrolub in 2003 was already EVA positive and we expect similar or even higher levels for the years to come.

Fuchs Petrolub is an EVA generator



Source: Company data, MeFiCo estimates

Valuation summary: Based on our peer group valuation, we derive a fair value range between € 81 and € 110 for Fuchs Petrolub, which is confirmed by our EVA valuation which derives a fair value of € 89. In addition, we believe Fuchs Petrolub will continue to generate positive EVA and FCF levels. In combination with the solid operating performance outlook (see analysis chapter), we therefore recommend Fuchs Petrolub a Buy with a price target of €80 per voting and preference share, equalling an upside potential of 35% compared to current levels. We believe this price target is conservative, as it is below the lowest derived fair value from peer group and EVA valuation and therefore - we believe - properly reflects the fact that Fuchs Petrolub tends to be active in a more mature sub-market than most of its German Automotive peers.

Buy with a price target of €80 per voting and preference share

Appendix

Fuchs P & L Account in eu m	2002a	2003a	2004e	2005e	2006e	2007e
Revenues	1,064.7	1,040.9	1,076.3	1,113.5	1,149.2	1,184.5
% growth y-o-y		-2.2%	3.4%	3.5%	3.2%	3.1%
Europe	717.2	694.4	709.0	717.8	726.8	735.9
% growth y-o-y		-3.2%	2.1%	1.3%	1.3%	1.3%
Americas	216.7	192.7	190.8	197.5	204.4	211.5
% growth y-o-y		-11.1%	-1.0%	3.5%	3.5%	3.5%
Asia-Pacific/Africa	147.8	174.8	197.5	219.3	239.0	258.1
% growth y-o-y		nm	13.0%	11.0%	9.0%	8.0%
Holding/consolidation	-17.0	-21.0	-21.0	-21.0	-21.0	-21.0
% growth y-o-y		-9.0%	0.0%	0.0%	0.0%	0.0%
EBITA	85.0	94.4	98.8	102.7	106.6	110.3
as % of sales	8.0%	9.1%	9.2%	9.2%	9.3%	9.3%
% growth y-o-y		11.1%	4.7%	4.0%	3.8%	3.5%
Goodwill amortisation	-15.0	-19.3	-15.0	0.0	0.0	0.0
EBIT	70.0	75.1	83.8	102.7	106.6	110.3
as % of sales	6.6%	7.2%	7.8%	9.2%	9.3%	9.3%
% growth y-o-y		7.3%	11.6%	22.6%	3.8%	3.5%
Europe	44.9	53.9	57.2	65.3	66.4	67.2
as % of divisional sales	6.3%	7.8%	8.1%	9.1%	9.1%	9.1%
% growth y-o-y		20.0%	6.2%	14.2%	1.6%	1.3%
Americas	25.6	22.9	23.8	29.8	30.9	31.9
as % of divisional sales	11.8%	11.9%	12.5%	15.1%	15.1%	15.1%
% growth y-o-y		-10.5%	4.1%	25.0%	3.5%	3.5%
Asia-Pacific/Africa	9.6	5.1	10.3	14.3	16.3	18.3
as % of divisional sales	6.5%	2.9%	5.2%	6.5%	6.8%	7.1%
% growth y-o-y		-46.9%	101.4%	38.8%	14.0%	12.8%
Holding/consolidation	-10.1	-6.8	-7.5	-6.7	-6.9	-7.1
as % of total sales	-0.9%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%
% growth y-o-y		-32.7%	10.8%	-11.3%	3.2%	3.1%
Financial Result	-26.0	-23.1	-20.0	-18.0	-17.0	-16.0
EBT	44.0	52.0	63.8	84.7	89.6	94.3
as % of total sales	4.1%	5.0%	5.9%	7.6%	7.8%	8.0%
% growth y-o-y		18.2%	22.7%	32.8%	5.7%	5.3%
Extraordinary Result	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-19.9	-21.1	-26.0	-28.0	-29.6	-31.1
% of EBTA	33.7%	29.6%	33.0%	33.0%	33.0%	33.0%
Minorities	-1.0	-1.2	-1.4	-1.6	-1.8	-1.8
Net income	23.1	29.7	36.4	55.2	58.2	61.4
as % of sales	2.2%	2.9%	3.4%	5.0%	5.1%	5.2%
% growth y-o-y		28.6%	22.5%	51.5%	5.5%	5.5%
Number of shares in m (voting)			3.9	3.9	3.9	3.9
Number of shares in m (prefs)			3.9	3.9	3.9	3.9
EPS basic (eu)	3.15	4.03	4.63	7.02	7.41	7.81
% growth y-o-y		27.9%	14.9%	51.5%	5.5%	5.5%
EPS excl. goodwill amort. (eu)	4.63	5.31	6.54	7.02	7.41	7.81
% growth y-o-y		14.7%	23.1%	7.3%	5.5%	5.5%
Dividend per voting share (eu)	1.46	1.56	1.67	1.78	1.90	1.95
% growth y-o-y		6.8%	7.1%	6.6%	6.7%	2.6%
Dividend per pref. share (eu)	1.63	1.73	1.84	1.95	2.07	2.12
% growth y-o-y		6.1%	6.4%	6.0%	6.2%	2.4%

Source: Fuchs Petrolub, MeFiCo estimates

Fuchs Balance Sheet in eu m	2002	2003	2004e	2005e	2006e	2007e
Intangible Assets	111.0	90.9	98.3	101.7	105.0	108.2
<i>as % of sales</i>	10.4%	8.7%	9.1%	9.1%	9.1%	9.1%
Tangible Assets	181.0	161.8	167.3	173.1	178.6	184.1
<i>as % of sales</i>	17.0%	15.5%	15.5%	15.5%	15.5%	15.5%
Financial Assets	20.5	12.1	11.6	11.6	11.6	11.6
<i>as % of sales</i>	1.9%	1.2%	1.1%	1.0%	1.0%	1.0%
Fixed Assets	312.5	264.8	277.2	286.4	295.2	303.9
Inventories	132.8	126.5	130.8	135.3	139.7	144.0
<i>as % of sales</i>	12.5%	12.2%	12.2%	12.2%	12.2%	12.2%
Receivables	169.6	170.2	186.7	193.2	199.4	205.5
<i>as % of sales</i>	15.9%	16.4%	17.4%	17.4%	17.4%	17.4%
Other Assets	45.6	37.8	39.1	40.4	41.7	43.0
<i>as % of sales</i>	4.3%	3.6%	3.6%	3.6%	3.6%	3.6%
Marketable Securities	0.2	0.0	0.0	0.0	0.0	0.0
<i>as % of sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash & Equivalents	13.4	29.4	14.5	24.6	37.5	62.9
<i>as % of sales</i>	1.3%	2.8%	1.3%	2.2%	3.3%	5.3%
Total Current Assets	361.6	363.9	371.1	393.6	418.3	455.4
Deferred Tax	4.3	7.2	8.0	8.3	8.5	8.8
<i>as % of sales</i>	0.4%	0.7%	0.7%	0.7%	0.7%	0.7%
Accruals & Other	0.0	0.0	0.0	0.0	0.0	0.0
<i>as % of sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Assets	678.4	635.9	656.3	688.3	722.0	768.0
Total Equity	105.2	132.5	156.9	198.3	241.8	287.6
Minority Interest	4.9	5.2	5.4	5.6	5.7	5.9
<i>as % of sales</i>	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Pension Provisions	56.1	57.0	59.6	62.0	64.3	66.6
<i>as % of sales</i>	5.3%	5.5%	5.5%	5.6%	5.6%	5.6%
Other Provisions	58.4	62.0	70.0	72.6	75.2	77.7
<i>as % of sales</i>	5.5%	6.0%	6.5%	6.5%	6.5%	6.6%
Provisions	114.5	119.0	129.5	134.6	139.5	144.3
Financial Debt	318.4	239.3	219.3	199.3	179.3	169.3
<i>as % of sales</i>	29.9%	23.0%	20.4%	17.9%	15.6%	14.3%
Trade Payables	79.5	85.7	89.2	92.6	95.9	99.2
<i>as % of sales</i>	7.5%	8.2%	8.3%	8.3%	8.3%	8.4%
Other Liabilities	46.7	45.6	47.1	48.8	50.3	51.9
<i>as % of sales</i>	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Total Liabilities	444.6	370.6	355.6	340.7	325.5	320.4
Deferred Tax	9.2	8.6	8.9	9.2	9.5	9.8
<i>as % of sales</i>	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%
Accruals & Other	0.0	0.0	0.0	0.0	0.0	0.0
<i>as % of sales</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Equity & Liabilities	678.4	635.9	656.3	688.3	722.0	768.0

Source: Fuchs Petrolub, MeFiCo estimates

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This study was completed on 5 July 2004.

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Our recommendations for NON DAX companies:

Buy: We expect the share price to rise over the next six months

Sell: We expect the share price to decline over the next six months

Equity Research & Sales		
Timo Graucob	1870	
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Anke Berle	1876	Office Administration
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Equity Research		
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Robert Heberger	1706	Transport/Logistic/Automotive/Autom. Suppliers
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Kerstin Strohmeier	1877	Technical Support & Layout
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Institutional Equity Sales		
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Wilhelm Scholze	1881	
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