Baldwin Technologies Inc (BLD)

GICS Sector Industrials
Sub-Industry Industrial Machinery

Company Overview

Baldwin Technology is a manufacturer of accessories and controls for the printing and publishing industry. It provides its customers with products designed to enhance the quality, productivity and cost efficiency of the print manufacturing process while addressing environmental concerns and safety issues. Baldwin products include cleaning systems, fluid management and ink control systems, web control and press protection systems drying systems, web and material handling systems and newspaper inserter equipment. Baldwin sells its products to printing press manufacturers who incorporate its products into their own printing systems for sale to printers and publishers, and to publishers to upgrade the quality and capability of existing and new printing presses.

Stock Performance

Source: Standard & Poor's Stock Report

Macroeconomic Outlook

Our fundamental outlook for the industrial machinery sub-industry to which BLD belongs is negative in the short-term future. Two key indices help measure the future capabilities of this industry—the Purchaser Manager's Index (PMI) and the Durable Good's Data released by the Department of Commerce. The PMI has fallen significantly from its 12-month average and is the lowest since March 2007 at 50.9 (where 50 signifies growth in the manufacturing sector). On the other hand, new orders for manufactured durable goods have decreased for the second consecutive month by over 1.7 percent. A combination of these two factors indicates that the demand for this industry's product may be softening.

Industry Outlook

Given the macroeconomic trend, our outlook for the industrial machinery industry is neutral to slightly bearish. We believe that the recent housing market and credit market problems will possibly affect certain companies in this industry. However, one redeeming factor could be the demand and stable domestic orders in select markets overseas. We expect companies in the industrial manufacturing group to generate EPS growth of 15% in 2008 as a result of overseas business.

Company Financial Outlook

Revenues rose 12% in the year ended June 30, 2007, to $201.5 million, from $179.4 million in 2006. The gross margin narrowed despite the higher revenues. Operating expenses were $54.9 million, down 9% from $60.3 million. However, operating income was $9.9 million, compared to $10.6 million. Income before taxes was $7.6 million, $9.7 million, a decrease of 22%. Income taxes were $1.0 million, against $3.4 million, and net income was $6.6 million ($0.42 a share), vs. $6.3 million ($0.40). One key statistic in this industry is the order backlog as it hints at future performance. Another disconcerting point is the abnormal capital divestment in 2007. Total cash flow from investing activities was ($21.94M) compared to ($1.29M) in 2006. A rising order backlog is a sign of incapability to supply the required products to customers. As of June 30, 2007, BLD's backlog was $52.7 million, up from $49.2 million a year earlier. Therefore, overall, combined with macroeconomic and industrial trends, one can deduce that the company may not perform phenomenally in the near-future.

A comparision of BLD's stock performance with that of the S&P **Source: Google Finance**

Valuation

Baldwin Tech, a Comparative Analysis:

	Stock Symbol	Stk.Mkt. Cap. (Mil. $)	Recent Stock Price	P/E Ratio	EPS 12-M. Trailing Chg(%)	30-Day Price Chg(%)	1 Year Price	Beta	Yield (%)	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap
Baldwin Technology	**BLD**	**71**	**4.96**	**12**	**0.42**	**-1%**	**-16%**	**1.93**	**Nil**	**13.2**	**3.8**	**6.7**
Albany International	AIN	975	37.37	32	1.17	0%	12%	0.67	1.2	10.8	7.8	25.2
Nordson Corp.	NDSN	1,810	53.61	21	2.6	12%	19%	0.93	1.3	25.7	15.3	10.8
Valmont Industries	VMI	2,446	95.05	32	2.96	12%	67%	0.62	0.4	16.9	7.3	31.3

A comparative analysis of Baldwin Tech with a few of its competitors shows that BLD is at a position of great competitive disadvantage.

Investment Risks

Baldwin's business is rather dependent upon the general condition of the market. Therefore, the rather grim outlook of the economy casts a forbidding shadow over BLD's prospects.

Free Cash Flow to Equity

We have assumed that BLD will continue to grow at a stable growth for the rest of its lifetime. Therefore, we have used the FCFE model to value BLD. The following table provides the other assumptions we have made.

The FCFE model values BLD at **$2.51** at a 5% perpetual growth rate as of October 31, BLD's stock is valued at $5.20.

Assumptions:			
Input High Growth	Stable	Riskfree rate	4.25%
Length of growth period	Forever	Risk Premium	5.50%
Growth rate	5.00%	Cost of Debt	2.24%
Debt ratio	17.00%	Tax Rate	35.00%
Beta	1.93	Return on Capital	4.00%
Reinvestment Rate	239.65%	Cost of Equity	14.87%

Final Recommendation (Sell)

Based on the above financial analysis, as well as a qualitative analysis of the economy and the industry in general, we have concluded that BLD is overvalued. We are of the opinion that there is little possibility of upside potential given the conditions in the market today. However, there may still be long-term potential if the overseas business is bolstered.

Target Price: $2.51

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