Sal. Oppenheim

OPPENHEIM COMPANY NEWS

11.05.2006

AC-SERVICE

ACVG.DE

Price: €7.24

Buy

Q1 burdened by credit fees

Fair value: €9.00

Yr. end	2004	2005	2006e	2007e
Sales	44.5	45.7	67.0	74.0
Net Profit	-2.2	1.4	1.2	2.9
adj. EPS	-0.27	0.27	0.23	0.56
PER		19.7	31.9	12.9
EV/EBITDA	2.5	2.7	4.9	3.7
EBIT margin %	-2.0	3.4	4.2	6.7
Yield %	0.0	3.4	2.1	5.2

Market Cap.: €37.46m Free Float: 45.0% EPS CAGR 03-2007: 11.0%

in EUR million	Q1 2006 expected	Q1 2006 reported	Q1 2005	% change y-o-y
Revenue	16.1	15.9	10.9	46.0%
EBITA	0.47	0.13	0.57	n.m.
EBITA margin	2.9%	0.8%	5.2%	
Net Income	0.26	-0.72	0.28	n.m.
EPS, EUR	0.05	-0.14	0.05	n.m.

Investment case: We maintain the **buy** rating for AC-Service stock, despite a loss in Q1 caused by a payment of a credit fee. Consolidation of All For One, an SAP consultancy, led to significant increase in revenue and should lead to improved profitability in the later quarters.

Facts:

_____ Q1 revenue benefited significantly from first-time consolidation of All For One, an SAP consultancy, that led to SAP-related revenues more than trebling y-o-y. Within other business units, Managed IT Services (IT outsourcing) revenue grew 6% y-o-y while HR Services revenue declined 11% y-o-y. On the other hand, profitability of HR Services has improved to an operating margin of 14.1% vs. 9.2% in Q1 2005.

_____ Overall profitability was negatively affected by a one-time credit fee of about €0.4m, which was fully booked in Q1 and led to a pre-tax loss of €0.26m. No deferred taxes were used, so that the after-tax loss widened to €0.7m.

Assessment:

_____ We expect performance to improve in the course of the year. The All For One activities have been consolidated from February 2006, so that the next quarters will have a more significant impact on revenue. Similarly, higher revenue should lead to higher earnings. We expect no additional special charges, so that the company should return to reporting profits from Q2 2006 onwards.

Valuation:

_____ We calculate the fair value for the stock of €9 based on a DCF model.

Conclusion and performance trigger:

_____ We believe that there should be no reason to view the Q1 loss as a threat to the company's positive performance for the full 2006 and expect recovery in earnings from Q2 onwards.

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The ratings are based on the analysts' expectations for the stock's absolute change in stock price over a period of 6 to 9 months. The change in stock price results from the difference between the current share price and the analysts' performance expectations, which are generally based on a fair value calculation.
Along with the expected high change in value, the STRONG BUY and SELL ratings also reflect the high degree of security which the analyst has in the given fair value.
Rating: Potential for change in stock price % (Difference between share price and performance expectations)
STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); SELL (< -10%)
Time horizon: The ratings are based on the expected change in value of a stock within a time scale of 6 to twelve months
Fair value: The calculation of a stock's fair value is generally based on the following models: 1) Discounted Free Cash Flow Model; 2) by a key comparable analysis

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