

TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

ecotel communication³⁾⁶⁾

Reuters: E4CG.DE

Bloomberg: E4C GY

Year *	Sales		Adj. IFRS earnings per sh.		PER	Free cash flow per share		Free cash flow yield per share %	Dividend EUR
	EUR m	(EUR m)	EUR	(EUR)		EUR	(EUR)		
2014	101.5	(101.5)	0.33	(0.33)	30.3	0.43	(0.43)	4.4	0.16
2015e	99.8	(100.8)	0.49	(0.50)	19.3	1.11	(1.12)	11.7	0.24
2016e	105.0	(105.5)	0.65	(0.70)	14.6	1.23	(1.28)	13.0	0.32
2017e	107.5	(108.0)	0.79	(0.84)	12.0	1.35	(1.40)	14.3	0.40

* Fiscal year end December – In brackets: Figures from the last publication

Reduction in fair value to EUR 12.0

- » **Q2 2015:** The key profit and loss data for Q2 came out just short of our expectations.
Sales: EUR 23.7m / DZe: EUR 24.0m
EBITDA: EUR 1.8m / DZe: EUR 1.9m
EPS: EUR 0.08 / DZe: EUR 0.09
- » **Interpretation:** The Business Client segment was just short of our expectations in terms of sales and gross earnings, which for the most part explains the deviation from our group forecast. The New Business segment produced encouraging results; it was marginally short of our forecast in terms of sales, but it met our earnings expectations. The driver continues to be successful business development at subsidiary easybell (DSL reselling), which can be closely tracked by the performance of the minorities. Free cash flow was also encouraging, at EUR 1.2m in Q2.
- » **Outlook:** The management confirmed the full-year outlook for 2015 and accordingly anticipates group sales of EUR 90-100m (DZe: EUR 99.8m) and EBITDA of EUR 7.5-8.5m (DZe: EUR 8.1m).
- » **Model/valuation:** We have revised our model and slightly reduced our profit estimates for 2015 and the subsequent years. This results in a new fair value of EUR 12.0 compared to the previous figure of EUR 12.5.

The Q2 2015 results were just short of our forecast, which can for the most part be attributed to the B2B business area. We have somewhat reduced our estimates for 2015 and the subsequent years and obtain a new fair value of EUR 12.0 compared to the previous figure of EUR 12.5. The Buy recommendation is confirmed.

Selected Companies	Price on 13 Aug 2015	PER		EV / EBITDA		EV / Sales 15e	Re-com.
		15e	16e	15e	16e		
ecotel communication	9.47 EUR	19.3	14.6	4.4	3.7	0.36	↑
Deutsche Telekom	16.55 EUR	26.7	19.8	7.7	7.3	2.05	→
United Internet	45.55 EUR	25.5	21.0	13.8	12.0	2.93	↑
QSC	1.88 EUR	–	125.3	7.9	7.1	0.81	–
Telefónica Deutschland	5.69 EUR	–	–	10.6	9.5	2.30	↓
Median for all peer group companies		26.1	21.0	9.3	8.4	2.18	–

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
14 Aug 2015

Buy (prev. Buy)

Closing price 13 Aug 2015

(in EUR): 9.47

Fair value: 12.00 (prev. 12.50)

Financial ratios 2015e:

Book value per share (in EUR):	5.62
Equity ratio (in %):	54.3
Net margin (in %):	2.4
ROE (in %):	10.9
Dividend yield (in %):	2.6
Free cash flow (EUR m):	3.9
Net debt (EUR m):	0.0

Number of shares

(million units): 3.5

Market cap

(in EUR m): 33.13

Free float (in %): 26.0

SIN: 585434

ISIN: DE0005854343

Datastream: D:E4CX

Next newsflow:

13.11.2015: Q3 2015



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DZ BANK
Bank on Germany

AT A GLANCE

Company profile

ecotel communications is a telcoms company operating nationwide and with the focus on corporate customers. On top of this core business, ecotel also runs a wholesale segment as well as a "New business" segment, where strongly growing business units are consolidated.

Basis for investment recommendation

We expect rising earnings in the coming years. Key growth drivers and a large project for the Allianz group and DSL activities of the subsidiary easybell.

Price sensitive current issues

- » Profitable growth
- » Margin expansion
- » Further large scale orders (B2B segment)
- » Further share buybacks
- » Further market share gains of easybell

Opportunities and risks

Opportunities	Risks
Very moderate valuation	Delays or other problems regarding larger projects
Consolidation	Rising competition
Better than expected business development (e.g. market share gains easybell)	Weaker than expected business development
Further large scale orders	

¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

PROFIT AND LOSS ACCOUNT

Euro m	2014	2015e	2016e	2017e
Sales	101.5	99.8	105.0	107.5
Change in inventory/Own work	2.9	0.8	0.8	0.8
Total output	104.4	100.6	105.8	108.3
% against prev. year	14%	-4%	5%	2%
Cost of materials	-74.9	-70.5	-74.0	-75.3
Personnel expenses	-11.9	-12.0	-12.1	-12.3
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.4	-10.0	-10.7	-11.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0
EBITDA	7.3	8.1	9.0	9.7
For information: EBITDA adjusted	7.0	8.1	9.0	9.7
Depreciation	-4.3	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.0	3.9	4.8	5.5
For information: EBIT adjusted	3.0	3.9	4.8	5.5
% against prev. year	-9%	31%	23%	14%
Interest paid / received	-0.2	-0.2	-0.1	0.0
Profit before tax	2.8	3.7	4.7	5.5
For information: EBT adjusted	2.8	3.7	4.7	5.5
% against prev. year	-10%	33%	27%	17%
Income taxes from continuing operations	-1.0	-1.2	-1.6	-1.8
Tax rate	37%	34%	34%	34%
Net profit from continuing operations	1.8	2.5	3.1	3.6
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	1.8	2.5	3.1	3.6
Profit or loss attributable to minority interest	-0.6	-0.8	-0.9	-0.9
Profit or loss attributable to shareholders	1.2	1.7	2.3	2.8
thereof from continuing operations	1.2	1.7	2.3	2.8
thereof from discontinued operations	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.542	3.500	3.500	3.500
IFRS earnings per share, diluted	0.33	0.49	0.65	0.79
Adjusted earnings per share, diluted (contin.)	0.33	0.49	0.65	0.79

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

RATIOS

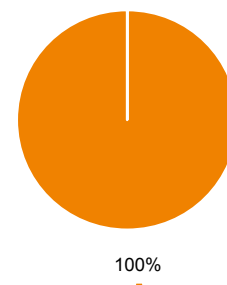
Euro	2014	2015e	2016e	2017e
Profit and loss ratios				
Total output (m)	104.4	100.6	105.8	108.3
EBITDA margin	6.7%	8.1%	8.5%	9.0%
EBIT margin	2.9%	3.9%	4.5%	5.1%
Net margin	1.7%	2.4%	3.0%	3.4%
Investment ratio	3.5%	3.0%	2.9%	3.0%
R&D as % of total output				
Net other operating costs as % of total output	10.0%	9.9%	10.1%	10.2%
Net financial income as % of total output	-0.2%	-0.2%	-0.1%	0.0%
Interest cover	9.8	19.9	45.2	374.6
Average sales growth next five years	3.9%			
Average earnings growth next five years				
Profitability ratios				
ROE	8.5%	10.9%	12.6%	13.4%
ROCE	12.9%	17.8%	23.1%	27.8%
Productivity ratios				
Sales per employee ('000)	435.11	419.17	440.83	451.25
EBIT per employee ('000)	12.42	16.25	20.05	22.93
Balance sheet ratios				
Equity ratio	47.1%	54.3%	55.8%	57.8%
Long term debt and equity / Fixed assets	117.0%	113.8%	130.8%	150.3%
Liquidity (quick ratio)	118.0%	112.8%	131.6%	150.8%
Receivables as % of total output	12.7%	13.0%	13.0%	13.0%
Investment (net of GW) / Depreciation		71.4%	73.8%	76.2%
Working capital as % of total output	0.8%	0.8%	0.8%	0.8%
Net debt (m)	3.1	0.0	-3.3	-6.8
Net debt complete (m)	2.5	-0.6	-3.9	-7.4
Figures per share				
Earnings per share, diluted	0.33	0.49	0.65	0.79
Free cash flow per share, diluted	0.43	1.11	1.23	1.35
Dividend per common share	0.16	0.24	0.32	0.40
Cash per share, diluted	1.41	1.17	2.12	3.12
Net debt per share, diluted	0.87	0.00	-0.95	-1.95
Valuation ratios				
Enterprise value / Sales	0.4	0.4	0.3	0.3
Enterprise value / EBITDA	5.7	4.4	3.7	3.2
Enterprise value / EBIT	13.5	9.2	7.0	5.6
EV/Sales to sales growth	0.10	0.09	0.08	0.07
PEG ratio - common shares	1.78			
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

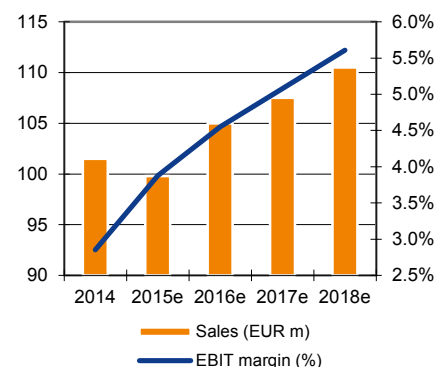
SALES BY REGION 2014



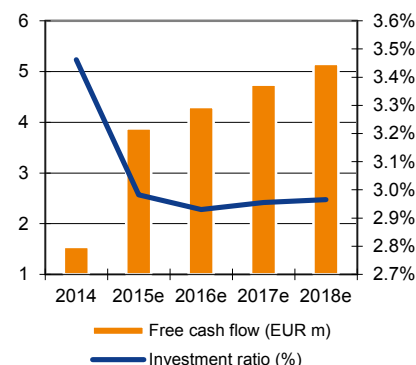
SALES BY BUSINESS SEGMENT 2014



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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BALANCE SHEET

IFRS - Euro m	2014	2015e	2016e	2017e
ASSETS				
Non current assets	23.0	21.8	20.7	19.7
Intangible assets	13.1	12.6	12.2	11.8
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	9.1	8.4	7.7	7.1
Financial assets	0.7	0.7	0.7	0.7
Other long-term assets	0.1	0.1	0.1	0.1
Current assets	20.8	19.7	23.8	27.6
Inventories	0.1	0.1	0.1	0.1
Trade receivables	13.3	13.1	13.7	14.1
Financial assets	0.6	0.6	0.6	0.6
Other receivables and short-term assets	1.9	1.9	2.0	2.0
Liquid assets	5.0	4.1	7.4	10.9
Assets available for sale	0.0	0.0	0.0	0.0
Total assets	43.8	41.5	44.5	47.3
LIABILITIES				
Shareholders' equity	20.7	22.5	24.8	27.3
Share capital	3.5	3.5	3.5	3.5
Reserves	15.0	16.2	17.6	19.2
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.1	2.9	3.7	4.6
Treasury stock	0.0	0.0	0.0	0.0
Non current liabilities	6.2	2.2	2.2	2.2
Provisions for pensions	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	5.4	1.4	1.4	1.4
Other payables	0.9	0.9	0.9	0.9
Current liabilities	16.9	16.7	17.4	17.8
Trade payables	12.0	11.8	12.4	12.7
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.7	2.7	2.7	2.7
Other liabilities	2.2	2.2	2.3	2.3
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	43.8	41.5	44.5	47.3
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

SUMMARY

Euro m	2014	2015e	2016e	2017e
Profit and loss account				
Total output	104.4	100.6	105.8	108.3
Cost of materials	-74.9	-70.5	-74.0	-75.3
Personnel expenses	-11.9	-12.0	-12.1	-12.3
Other operating income/expenses	-10.4	-10.0	-10.7	-11.0
EBITDA	7.3	8.1	9.0	9.7
Depreciation	-4.3	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.0	3.9	4.8	5.5
Interest paid / received	-0.2	-0.2	-0.1	0.0
Profit before tax	2.8	3.7	4.7	5.5
Income taxes from continuing operations	-1.0	-1.2	-1.6	-1.8
Net profit from continuing operations	1.8	2.5	3.1	3.6
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	1.8	2.5	3.1	3.6
Profit or loss attributable to minority interest	-0.6	-0.8	-0.9	-0.9
Profit or loss attributable to shareholders	1.2	1.7	2.3	2.8
Balance sheet				
Non current assets	23.0	21.8	20.7	19.7
thereof goodwill	8.9	8.9	8.9	8.9
Current assets	20.8	19.7	23.8	27.6
thereof liquid assets	5.0	4.1	7.4	10.9
Shareholders' equity	20.7	22.5	24.8	27.3
Non current liabilities	6.2	2.2	2.2	2.2
Current liabilities	16.9	16.7	17.4	17.8
Shareholders' equity and liabilities	43.8	41.5	44.5	47.3
Cash flow statement				
Operating CF (cont.)	4.4	6.9	7.4	7.8
Operating CF (discont.)	0.0			
Investing CF (cont.)	-2.9	-3.0	-3.1	-3.1
Investing CF (discont.)	0.0			
Free cash flow (cont.)	1.5	3.9	4.3	4.7
Free cash flow (discont.)	0.0			
Financing CF (cont.)	-2.7	-4.8	-1.0	-1.2
Financing CF (discont.)	0.0			
Increase/decrease of cash	-1.1	-0.9	3.3	3.5
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

^{1) - 9)} Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

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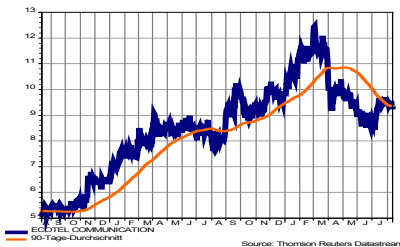
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RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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