

# TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

## ecotel communication<sup>3)6)</sup>

Reuters: E4CG.DE

Bloomberg: E4C GY

Year *	Sales		Adj. IFRS- Earnings per sh.		Cash flow per share		PER	PCF	Dividend per share
	EUR m		EUR		EUR				
2013	91.4	(91.4)	0.42	(0.42)	1.37	(1.37)	15.0	4.6	0.00
2014e	97.5	(96.0)	0.37	(0.40)	1.60	(1.53)	21.9	5.1	0.00
2015e	100.4	(97.9)	0.67	(0.69)	1.88	(1.90)	12.2	4.3	0.00
2016e	103.5	(100.0)	0.87	(0.89)	2.10	(2.12)	9.4	3.9	0.00

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

### Q2 2014 characterized by various special effects / outlook confirmed

- » **Q2 2014:** All in all, Q2 2014 turned out more or less in line with our expectations. However, on the earnings side a number of positive and negative special effects impacted in the quarter. Revenue of EUR 24.0m (+7.6% yoy) and EBITDA of EUR 1.9m (18.8% yoy) exceeded the prior year readings due mostly to factors such as a positive one-off income item. Owing to a special depreciation allowance, however, EBIT of EUR 0.7m (-12.5%) and earnings per share of EUR 0.07 EUR (-36.4% yoy) were down on the previous year.
- » **Outlook:** Management has confirmed its guidance for the whole of 2014 and continues to expect EBITDA of EUR 6.5-7.5m and consolidated sales of around EUR 85-95m which should lie in the upper region of the forecast range.
- » **Share buyback:** In the second quarter 2014 ecotel bought back 90 thousand own shares for EUR 0.8m and lowered the share capital to EUR 3.51m on 27.6. by calling in a total of 390 thousand shares.
- » **DZ opinion:** We still believe that there are two main elements of the equity story of ecotel. 1) Profitable growth in the B2B segment (especially from the large-scale Allianz project) 2) Further market share gains (DSL reselling) by the group subsidiary Easybell (where we hope for greater transparency in the future).

**On balance, Q2 2014 has turned out more or less in line with expectations. However, a number of positive and negative special effects impacted during the quarter. Management has left its guidance for the whole of 2014 unchanged. We confirm our buy recommendation and fair value of EUR 11 per share.**

Selected Companies	Price on 15 Aug 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
ecotel communication	8.16 EUR	21.9	12.2	4.3	3.1	0.32	↑
QSC	2.34 EUR	234.0	36.0	5.8	5.0	0.73	–
United Internet	31.16 EUR	21.5	18.4	12.3	10.6	2.18	↑
Mox Telecom AG	0.61 EUR	0.8	0.5	–	–	–	–
freenet	19.52 EUR	10.7	10.0	8.2	7.7	1.01	↑
<b>Median for all peer group companies</b>		<b>16.1</b>	<b>14.2</b>	<b>8.2</b>	<b>7.7</b>	<b>1.01</b>	<b>–</b>

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

## EQUITIES

Flash  
18 Aug 2014

Buy (prev. Buy)

Closing price 15 Aug 2014

(in EUR): 8.16

Fair value: 11.00 (prev. 11.00)

### Financial ratios 2014e:

Book value per share (in EUR):	5.73
Equity ratio (in %):	48.3
Net margin (in %):	1.9
ROE (in %):	8.4
Dividend yield (in %):	0.0
Free cash flow (EUR m):	3.0
Net debt (EUR m):	0.4

### Number of shares

(million units): 3.5

### Market cap

(in EUR m): 28.55

### Free float (in %):

23.2

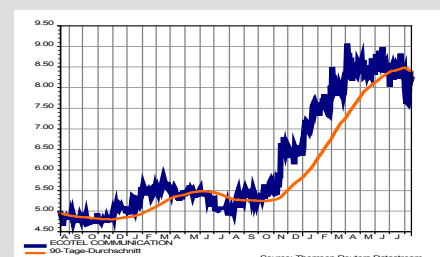
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### Next Newsflow:

14.11.2014: Q3 2014



Author: Karsten Oblinger, Analyst

**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

The future prospects are bright. We forecast strong earnings growth in the years to come. An important growth driver is a large project for the Allianz group. This positive outlook is not yet reflected in the current company valuation.

### 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	

<sup>1)-9)</sup> 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	2013	2014e	2015e	2016e
<b>Sales</b>	<b>91.4</b>	<b>97.5</b>	<b>100.4</b>	<b>103.5</b>
Change in inventory/Own work	0.6	2.5	0.7	0.5
<b>Total output</b>	<b>92.0</b>	<b>100.0</b>	<b>101.1</b>	<b>104.0</b>
% against prev. year	-3%	9%	1%	3%
Cost of materials	-64.4	-70.9	-70.7	-72.1
Personnel expenses	-10.6	-11.8	-11.5	-11.6
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.3	-9.9	-10.2	-10.5
Extraordinary income/expenses	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>6.7</b>	<b>7.4</b>	<b>8.7</b>	<b>9.8</b>
For information: EBITDA adjusted	6.7	7.4	8.7	9.8
Depreciation	-3.4	-4.3	-4.1	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>3.3</b>	<b>3.1</b>	<b>4.6</b>	<b>5.6</b>
For information: EBIT adjusted	3.3	3.1	4.6	5.6
% against prev. year	735%	-6%	49%	23%
Interest paid / received	-0.2	-0.3	-0.2	-0.1
<b>Profit before tax</b>	<b>3.1</b>	<b>2.8</b>	<b>4.4</b>	<b>5.6</b>
For information: EBT adjusted	3.1	2.8	4.4	5.6
% against prev. year		-9%	58%	26%
Income taxes from continuing operations	-1.0	-0.9	-1.4	-1.8
Tax rate	31%	32%	32%	32%
<b>Net profit from continuing operations</b>	<b>2.1</b>	<b>1.9</b>	<b>3.0</b>	<b>3.8</b>
Net profit from discontinued operations	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.1</b>	<b>1.9</b>	<b>3.0</b>	<b>3.8</b>
Profit or loss attributable to minority interest	-0.6	-0.6	-0.8	-0.9
<b>Profit or loss attributable to shareholders</b>	<b>1.5</b>	<b>1.3</b>	<b>2.3</b>	<b>3.0</b>
thereof from continuing operations	1.5	1.3	2.3	3.0
thereof from discontinued operations	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.600	3.500	3.400	3.400
IFRS earnings per share, diluted	0.42	0.37	0.67	0.87
Adjusted earnings per share, diluted (contin.)	0.42	0.37	0.67	0.87

Fiscal year end December

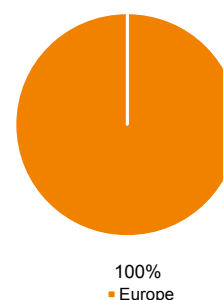
Source: ecotel communication and DZ BANK estimates

**RATIOS**

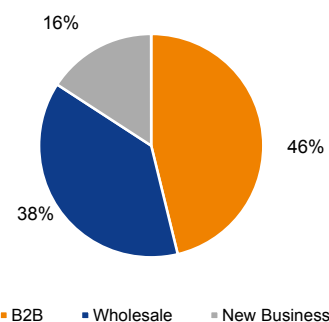
Euro	2013	2014e	2015e	2016e
<b>Profit and loss ratios</b>				
Total output (m)	92.0	100.0	101.1	104.0
EBITDA margin	7.3%	7.4%	8.6%	9.5%
EBIT margin	3.6%	3.1%	4.6%	5.4%
Net margin	2.3%	1.9%	3.0%	3.7%
Investment ratio	8.9%	5.2%	3.0%	2.7%
R&D as % of total output				
Net other operating costs as % of total output	11.2%	9.9%	10.1%	10.1%
Net financial income as % of total output	-0.2%	-0.3%	-0.2%	-0.1%
Interest cover	15.1	11.0	25.6	72.5
Average sales growth next five years	3.1%			
Average earnings growth next five years	19.0%			
<b>Profitability ratios</b>				
ROE	10.2%	8.4%	11.8%	12.9%
ROCE	14.2%	13.6%	21.4%	28.1%
<b>Productivity ratios</b>				
Sales per employee ('000)	973.53		495.59	1000.00
EBIT per employee ('000)	34.85		22.55	54.23
<b>Balance sheet ratios</b>				
Equity ratio	45.1%	48.3%	53.1%	58.2%
Long term debt and equity / Fixed assets	116.6%	113.1%	122.7%	138.5%
Liquidity (quick ratio)	121.8%	116.5%	127.1%	142.7%
Receivables as % of total output	15.4%	13.7%	13.9%	13.9%
Investment (net of GW) / Depreciation		120.3%	73.2%	66.7%
Working capital as % of total output	0.0%	-1.4%	-1.5%	-1.5%
Net debt (m)	3.1	0.4	-3.8	-9.0
Net debt complete (m)	2.0	-0.8	-4.9	-10.2
<b>Figures per share</b>				
Earnings per share, diluted	0.42	0.37	0.67	0.87
Diluted cash earnings per share	1.37	1.60	1.88	2.10
Dividend per common share	0.00	0.00	0.00	0.00
Cash per share, diluted	1.70	1.95	2.64	3.60
Net debt per share, diluted	0.86	0.11	-1.11	-2.66
<b>Valuation ratios</b>				
Enterprise value / Sales	0.3	0.3	0.3	0.2
Enterprise value / EBITDA	4.2	4.3	3.1	2.3
Enterprise value / EBIT	8.5	10.2	5.9	4.1
EV/Sales to sales growth	0.13	0.10	0.09	0.07
PEG ratio - common shares		1.15		
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

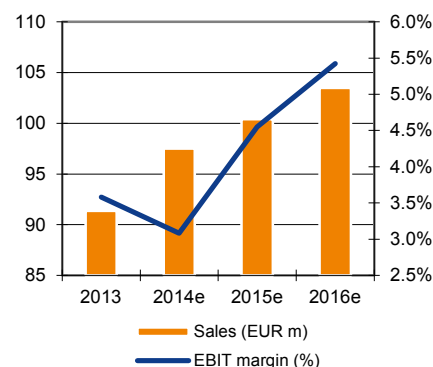
**SALES BY REGION 2013**



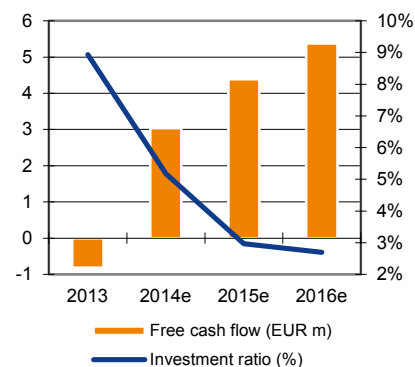
**SALES BY BUSINESS SEGMENT 2013**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



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**BALANCE SHEET**

IFRS - Euro m	2013	2014e	2015e	2016e
<b>ASSETS</b>				
<b>Non current assets</b>	<b>24.1</b>	<b>24.8</b>	<b>23.7</b>	<b>22.3</b>
Intangible assets	13.8	15.1	14.7	14.1
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	9.4	9.0	8.3	7.5
Financial assets	0.9	0.7	0.7	0.7
Other long-term assets	0.0	0.0	0.0	0.0
<b>Current assets</b>	<b>21.9</b>	<b>22.1</b>	<b>24.7</b>	<b>28.4</b>
Inventories	0.1	0.1	0.1	0.1
Trade receivables	14.2	13.7	14.1	14.5
Financial assets	1.1	1.1	1.1	1.1
Other receivables and short-term assets	0.3	0.4	0.4	0.4
Liquid assets	6.1	6.8	9.0	12.2
Assets available for sale	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>46.0</b>	<b>46.9</b>	<b>48.4</b>	<b>50.7</b>
<b>LIABILITIES</b>				
<b>Shareholders' equity</b>	<b>20.8</b>	<b>22.7</b>	<b>25.7</b>	<b>29.5</b>
Share capital	3.6	3.6	3.6	3.6
Reserves	15.1	16.4	18.7	21.7
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.0	2.6	3.4	4.2
Treasury stock	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>7.4</b>	<b>5.4</b>	<b>3.4</b>	<b>1.4</b>
Provisions for pensions	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	6.5	4.5	2.5	0.5
Other payables	0.9	0.9	0.9	0.9
<b>Current liabilities</b>	<b>17.9</b>	<b>18.8</b>	<b>19.3</b>	<b>19.8</b>
Trade payables	12.9	13.7	14.1	14.6
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.7	2.7	2.7	2.7
Other liabilities	2.3	2.4	2.5	2.5
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>46.0</b>	<b>46.9</b>	<b>48.4</b>	<b>50.7</b>
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

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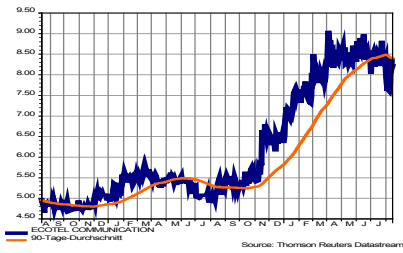
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**RATING HISTORY**

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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