

# 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.		PER	Free cash flow per share		Free cash flow yield per share	Dividend per share
	EUR m		EUR			EUR			
2013	91.4	(91.4)	0.42	(0.42)	15.0	-0.23	(-)	-3.5	0.00
2014e	97.5	(97.5)	0.36	(0.37)	25.9	0.86	(-)	9.2	0.00
2015e	100.4	(100.4)	0.65	(0.67)	14.3	1.27	(-)	13.7	0.00
2016e	104.7	(103.5)	0.96	(0.87)	9.7	1.68	(-)	18.1	0.00

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

### Q2 2014 in line with our expectations and confirmation of outlook

- » **Q3 2014:** The quarterly result is in line with our expectations.  
Sales: EUR 26.4m (+18% yoy) / DZe: EUR 26.2m  
EBITDA: EUR 1.8m (+12.5% yoy) / DZe: EUR 1.9m  
EPS: EUR 0.10 (+11.1% yoy) / DZe: EUR 0.11/
- » **Outlook:** Management confirmed the EBITDA full-year outlook for 2014 and continues to expect a range of EUR 6.5m-7.5m (DZe: EUR 7.4m).
- » **B2B:** After the first nine months, the B2B segment came in just under the prior-year level in terms of sales at EUR 31.1m There are two reasons to be stated here. Firstly, the roll-out for the Allianz major project is somewhat slower than originally anticipated. Secondly, it is to be considered that in the middle of the year the marketing of own mobile communications was suspended.
- » **New Business:** The New Business segment came in above prior-year values, both for the quarter and for the first 9 months. The positive performance was driven by the Easybell participation (DSL reselling), which is to be more transparent in future.
- » **Market changes:** The telecommunications landscape in Germany is currently undergoing significant change. This affects consolidation, technology and regulation. We are of the opinion that this gives rise to more opportunities than risks for ecotel AG and its shareholders.

**Q3 2014 results were in line with our expectations and management has left full-year outlook for EBITDA unchanged. We confirm our BUY recommendation and increase FV to EUR 12.5 (around 5x EV/EBITDA 2015e).**

Selected Companies	Price on 13 Nov 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
ecotel communication	9.29 EUR	25.9	14.3	4.8	3.6	0.36	↑
QSC	1.45 EUR	-	-	6.1	5.5	0.59	-
United Internet	33.00 EUR	16.1	18.5	11.0	9.9	2.63	↑
Mox Telecom AG	0.02 EUR	-	-	-	-	-	-
freenet	21.64 EUR	11.5	11.3	8.9	8.7	1.09	↑
<b>Median for all peer group companies</b>		<b>13.8</b>	<b>14.9</b>	<b>8.9</b>	<b>8.7</b>	<b>1.09</b>	<b>-</b>

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

## EQUITIES

Flash  
14 Nov 2014

Buy (prev. Buy)

Closing price 13 Nov 2014

(in EUR): 9.29

Fair value: 12.50 (prev. 11.00)

### Financial ratios 2014e:

Book value per share (in EUR):	5.71
Equity ratio (in %):	48.3
Net margin (in %):	1.9
ROE (in %):	8.3
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): 32.52

Free float (in %): 23.2

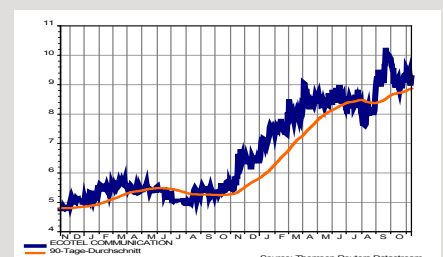
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### Next Newsflow:

Annual Report 2014: 03/2015



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

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>104.7</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>105.2</b>
% against prev. year	-3%	9%	1%	4%
Cost of materials	-64.4	-70.9	-70.7	-72.6
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>10.4</b>
For information: EBITDA adjusted	6.7	7.4	8.7	10.4
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>6.2</b>
For information: EBIT adjusted	3.3	3.1	4.6	6.2
% against prev. year	735%	-6%	49%	36%
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>6.2</b>
For information: EBT adjusted	3.1	2.8	4.4	6.2
% against prev. year		-9%	58%	39%
Income taxes from continuing operations	-1.0	-0.9	-1.5	-2.0
Tax rate	31%	33%	33%	33%
<b>Net profit from continuing operations</b>	<b>2.1</b>	<b>1.9</b>	<b>3.0</b>	<b>4.1</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>4.1</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>2.2</b>	<b>3.3</b>
thereof from continuing operations	1.5	1.3	2.2	3.3
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	0.36	0.65	0.96
Adjusted earnings per share, diluted (contin.)	0.42	0.36	0.65	0.96

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

**RATIOS**

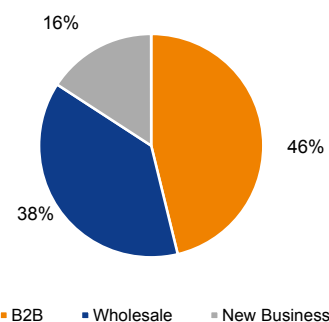
Euro	2013	2014e	2015e	2016e
<b>Profit and loss ratios</b>				
Total output (m)	92.0	100.0	101.1	105.2
EBITDA margin	7.3%	7.4%	8.6%	9.9%
EBIT margin	3.6%	3.1%	4.6%	5.9%
Net margin	2.3%	1.9%	2.9%	3.9%
Investment ratio	8.9%	5.2%	3.0%	2.7%
R&D as % of total output				
Net other operating costs as % of total output	11.2%	9.9%	10.1%	10.0%
Net financial income as % of total output	-0.2%	-0.3%	-0.2%	-0.1%
Interest cover	15.1	10.9	25.6	80.1
Average sales growth next five years	4.0%			
Average earnings growth next five years	28.4%			
<b>Profitability ratios</b>				
ROE	10.2%	8.3%	11.6%	13.9%
ROCE	14.2%	13.6%	21.4%	31.1%
<b>Productivity ratios</b>				
Sales per employee ('000)	973.53		495.59	1011.38
EBIT per employee ('000)	34.85		22.55	59.98
<b>Balance sheet ratios</b>				
Equity ratio	45.1%	48.3%	53.0%	58.2%
Long term debt and equity / Fixed assets	116.6%	113.0%	122.3%	139.5%
Liquidity (quick ratio)	121.8%	116.4%	126.6%	143.4%
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	-3.7	-9.3
Net debt complete (m)	2.0	-0.7	-4.8	-10.4
<b>Figures per share</b>				
Earnings per share, diluted	0.42	0.36	0.65	0.96
Free cash flow per share, diluted	-0.23	0.86	1.27	1.68
Dividend per common share	0.00	0.00	0.00	0.00
Cash per share, diluted	1.70	1.94	2.62	3.67
Net debt per share, diluted	0.86	0.12	-1.09	-2.73
<b>Valuation ratios</b>				
Enterprise value / Sales	0.3	0.4	0.3	0.3
Enterprise value / EBITDA	4.2	4.8	3.6	2.5
Enterprise value / EBIT	8.5	11.5	6.8	4.3
EV/Sales to sales growth	0.10	0.09	0.08	0.06
PEG ratio - common shares		0.91		
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

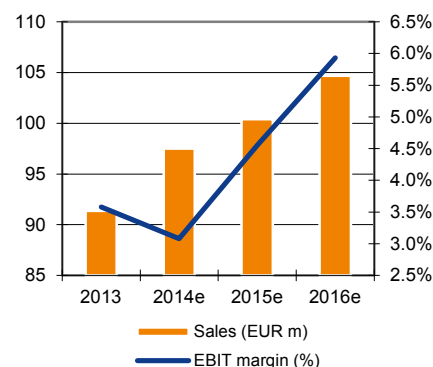
**SALES BY REGION 2013**



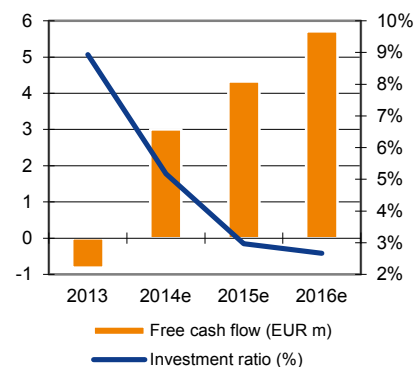
**SALES BY BUSINESS SEGMENT 2013**



**SALES AND MARGIN DEVELOPMENT**



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- Hold: price changes between +5% and -5%
- Sell: more than 5% decrease in share price

7.a) **Note:** - Any fair values / price targets shown for companies discussed in this report may not be achieved due to multiple risk factors, including, without limitation, market volatility, sector volatility, corporate actions, the state of the economy, the failure to achieve earnings and/or revenue projections, the unavailability of complete and accurate information and/or a subsequent occurrence that affects the underlying assumptions made by DZ BANK or by other sources relied upon in the report.

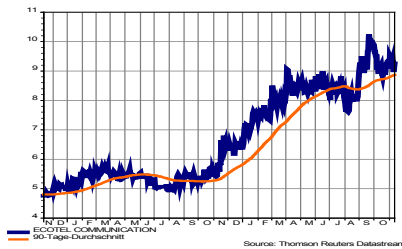
b) DZ BANK may also have published other research about the company during the period covered that did not contain a fair value / price target but that discussed valuation matters. The fair values / price targets shown should be considered in the context of all

prior published research as well as developments relating to the company, its industry and financial markets.

c) DZ BANK is not obliged to up-date the research report. Investors must keep themselves informed about on the current course of business and any changes in the current course of business of the issuer.

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**RATING HISTORY**

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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

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