

# 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 Dividend flow yield per share
	EUR m	EUR			EUR	%	
2014	101.5 (97.5)	0.33 (0.36)		30.3	0.43 (0.86)	4.4	0.16
2015e	100.8 (100.4)	0.50 (0.65)		19.3	1.12 (1.27)	11.6	0.25
2016e	105.5 (104.7)	0.70 (0.96)		13.9	1.28 (1.68)	13.2	0.35
2017e	108.0 (-)	0.84 (-)		11.5	1.40 (-)	14.5	0.42

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

### 2014 Annual Report in line with our expectations and start of dividend payments

- » **2014 Annual Report:** The 2014 Annual Report was for the most part in line with our expectations. Sales increased by 11.3% year on year to EUR 101.5m, while EBITDA was up by 10.6% to EUR 8.2m. Due to significantly higher write-downs than in the previous year EBIT fell from EUR 3.2m to EUR 3.0m and EPS contracted from EUR 0.40 to EUR 0.33. Free cash flow improved from EUR -0.8m to EUR 1.5m.
- » **Dividend:** The board of management and supervisory board approved the start of dividend payments and will propose a dividend of EUR 0.16 per share to the Annual General Meeting on 24.7.2015. In our dividend projections we currently assume that the company will continue in future to distribute about 50% of earnings per share.
- » **Outlook:** For 2015 the board of management expects group sales of EUR 90-100m with EBITDA of EUR 7.5-8.5m. Moreover, the board of management has set itself the target of increasing sales with permanent effect to more than EUR 100m by 2016, with EBITDA of EUR 8-10m.
- » **Model/valuation:** We have completely revised our model and somewhat reduced the profit estimates. Due to an increased peer-group valuation the methods mix (including micro-cap discount) results in an unchanged fair value of EUR 12.5.

The 2014 Annual Report was in line with our expectations. In addition to this the company announced the start of dividend payments and will for the first time pay EUR 0.16 for the 2014 financial year. We confirm the Buy recommendation and the fair value of EUR 12.5.

Selected Companies	Price on 10 Apr 2015	PER		EV / EBITDA		EV / Sales 15e	Re-com.
		15e	16e	15e	16e		
ecotel communication	9.69 EUR	19.3	13.9	4.5	3.7	0.36	↑
Deutsche Telekom	17.49 EUR	27.3	24.2	8.5	7.9	2.13	→
United Internet	44.05 EUR	25.8	21.0	13.1	11.3	2.72	↑
QSC	1.98 EUR	–	140.1	7.9	6.8	0.81	–
Telefonica Deutschland	5.40 EUR	–	–	12.6	11.0	2.22	↓
<b>Median for all peer group companies</b>		<b>25.8</b>	<b>24.2</b>	<b>12.1</b>	<b>9.5</b>	<b>2.18</b>	<b>–</b>

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

## EQUITIES

Flash  
13 Apr 2015

Buy (prev. Buy)

Closing price 10 Apr 2015

(in EUR): 9.69

Fair value: 12.50 (prev. 12.50)

### Financial ratios 2015e:

Book value per share (in EUR):	5.64
Equity ratio (in %):	54.2
Net margin (in %):	2.5
ROE (in %):	11.1
Dividend yield (in %):	2.6
Free cash flow (EUR m):	3.9
Net debt (EUR m):	-0.1

### Number of shares

(million units): 3.5

### Market cap

(in EUR m): 33.90

### Free float (in %):

26.0

SIN: 585434

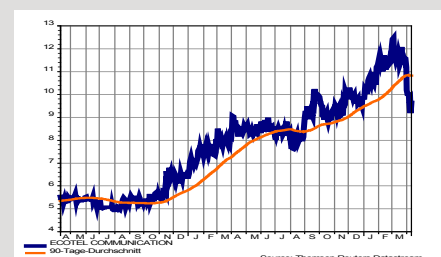
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Datastream: D:E4CX

### Next newsflow:

15.5.2015: Q1 2015

24.7.2015: 2015 Annual General Meeting



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 earnings growth in the years to come. Important growth drivers are a large project for the Allianz group and the successful DSL activities of the Easybell subsidiary.

### 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	2014	2015e	2016e	2017e
<b>Sales</b>	<b>91.4</b>	<b>101.5</b>	<b>100.8</b>	<b>105.5</b>	<b>108.0</b>
Change in inventory/Own work	0.6	2.9	0.8	0.8	0.8
<b>Total output</b>	<b>92.0</b>	<b>104.4</b>	<b>101.6</b>	<b>106.3</b>	<b>108.8</b>
% against prev. year	-3%	14%	-3%	5%	2%
Cost of materials	-64.4	-74.9	-71.3	-74.2	-75.6
Personnel expenses	-10.6	-11.9	-11.7	-12.1	-12.3
Other operating income	0.0	0.0	0.0	0.0	0.0
Other operating expenses	-10.3	-10.4	-10.4	-10.7	-11.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>6.7</b>	<b>7.3</b>	<b>8.2</b>	<b>9.3</b>	<b>10.0</b>
For information: EBITDA adjusted	6.7	7.0	8.2	9.3	10.0
Depreciation	-3.4	-4.3	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>3.3</b>	<b>3.0</b>	<b>4.0</b>	<b>5.1</b>	<b>5.8</b>
For information: EBIT adjusted	3.3	3.0	4.0	5.1	5.8
% against prev. year	735%	-9%	33%	27%	14%
Interest paid / received	-0.2	-0.2	-0.2	-0.1	0.0
<b>Profit before tax</b>	<b>3.1</b>	<b>2.8</b>	<b>3.8</b>	<b>5.0</b>	<b>5.7</b>
For information: EBT adjusted	3.1	2.8	3.8	5.0	5.7
% against prev. year		-10%	36%	31%	16%
Income taxes from continuing operations	-1.0	-1.0	-1.3	-1.7	-1.9
Tax rate	31%	37%	34%	34%	34%
<b>Net profit from continuing operations</b>	<b>2.1</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>	<b>3.8</b>
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.1</b>	<b>1.8</b>	<b>2.5</b>	<b>3.3</b>	<b>3.8</b>
Profit or loss attributable to minority interest	-0.6	-0.6	-0.8	-0.9	-0.9
<b>Profit or loss attributable to shareholders</b>	<b>1.5</b>	<b>1.2</b>	<b>1.8</b>	<b>2.4</b>	<b>2.9</b>
thereof from continuing operations	1.5	1.2	1.8	2.4	2.9
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.600	3.542	3.500	3.500	3.500
IFRS earnings per share, diluted	0.42	0.33	0.50	0.70	0.84
Adjusted earnings per share, diluted (contin.)	0.42	0.33	0.50	0.70	0.84

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

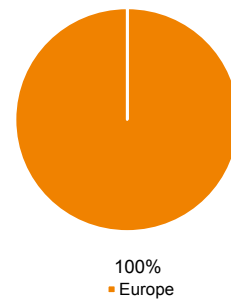
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**RATIOS**

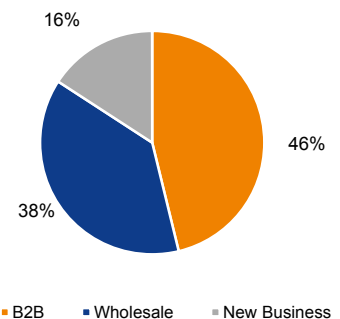
Euro	2013	2014	2015e	2016e	2017e
<b>Profit and loss ratios</b>					
Total output (m)	92.0	104.4	101.6	106.3	108.8
EBITDA margin	7.3%	6.7%	8.0%	8.7%	9.1%
EBIT margin	3.6%	2.9%	3.9%	4.8%	5.3%
Net margin	2.3%	1.7%	2.5%	3.1%	3.5%
Investment ratio	8.9%	3.5%	3.0%	2.9%	2.9%
R&D as % of total output					
Net other operating costs as % of total output	11.2%	10.0%	10.2%	10.1%	10.1%
Net financial income as % of total output	-0.2%	-0.2%	-0.2%	-0.1%	0.0%
Interest cover	15.1	9.8	20.2	47.5	462.5
Average sales growth next five years	3.9%				
Average earnings growth next five years	17.1%				
<b>Profitability ratios</b>					
ROE	10.2%	8.5%	11.1%	13.2%	13.8%
ROCE	14.2%	12.9%	18.2%	24.3%	29.0%
<b>Productivity ratios</b>					
Sales per employee ('000)	973.53	435.11	423.33	442.92	453.33
EBIT per employee ('000)	34.85	12.42	16.54	21.08	23.96
<b>Balance sheet ratios</b>					
Equity ratio	45.1%	47.1%	54.2%	55.9%	57.9%
Long term debt and equity / Fixed assets	116.6%	117.0%	114.0%	131.8%	151.7%
Liquidity (quick ratio)	121.8%	118.0%	113.0%	132.6%	152.1%
Receivables as % of total output	15.4%	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	0.0%	0.8%	0.8%	0.8%	0.8%
Net debt (m)	3.1	3.1	-0.1	-3.5	-7.1
Net debt complete (m)	2.0	2.5	-0.6	-4.1	-7.7
<b>Figures per share</b>					
Earnings per share, diluted	0.42	0.33	0.50	0.70	0.84
Free cash flow per share, diluted	-0.23	0.43	1.12	1.28	1.40
Dividend per common share	0.00	0.16	0.25	0.35	0.42
Cash per share, diluted	1.70	1.41	1.18	2.17	3.20
Net debt per share, diluted	0.86	0.87	-0.01	-1.01	-2.03
<b>Valuation ratios</b>					
Enterprise value / Sales	0.3	0.4	0.4	0.3	0.3
Enterprise value / EBITDA	4.2	5.7	4.5	3.7	3.2
Enterprise value / EBIT	8.5	13.5	9.3	6.7	5.5
EV/Sales to sales growth	0.11	0.10	0.09	0.08	0.07
PEG ratio - common shares	1.78				
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

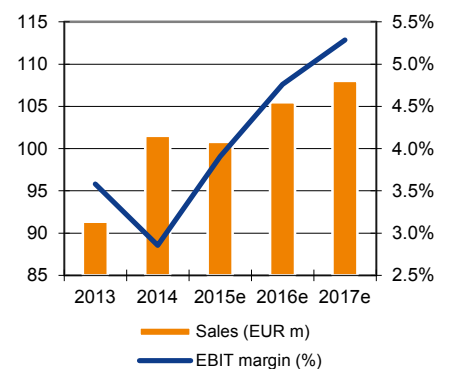
**SALES BY REGION 2013**



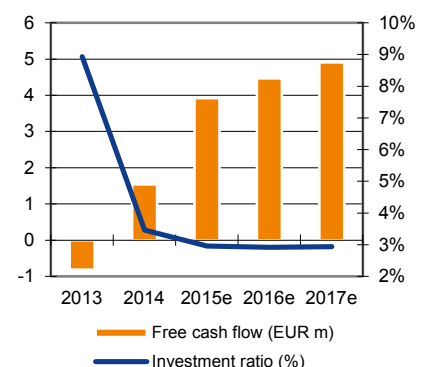
**SALES BY BUSINESS SEGMENT 2013**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



<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.

## BALANCE SHEET

IFRS - Euro m	2013	2014	2015e	2016e	2017e
<b>ASSETS</b>					
<b>Non current assets</b>	<b>24.1</b>	<b>23.0</b>	<b>21.8</b>	<b>20.7</b>	<b>19.7</b>
Intangible assets	13.8	13.1	12.6	12.2	11.8
thereof goodwill	8.9	8.9	8.9	8.9	8.9
Tangible assets	9.4	9.1	8.4	7.7	7.1
Financial assets	0.9	0.7	0.7	0.7	0.7
Other long-term assets	0.0	0.1	0.1	0.1	0.1
<b>Current assets</b>	<b>21.9</b>	<b>20.8</b>	<b>19.9</b>	<b>24.0</b>	<b>28.0</b>
Inventories	0.1	0.1	0.1	0.1	0.1
Trade receivables	14.2	13.3	13.2	13.8	14.1
Financial assets	1.1	0.6	0.6	0.6	0.6
Other receivables and short-term assets	0.3	1.9	1.9	2.0	2.0
Liquid assets	6.1	5.0	4.1	7.6	11.2
Assets available for sale	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>46.0</b>	<b>43.8</b>	<b>41.7</b>	<b>44.7</b>	<b>47.7</b>
<b>LIABILITIES</b>					
<b>Shareholders' equity</b>	<b>20.8</b>	<b>20.7</b>	<b>22.6</b>	<b>25.0</b>	<b>27.6</b>
Share capital	3.6	3.5	3.5	3.5	3.5
Reserves	15.1	15.0	16.2	17.8	19.5
Other equity	0.0	0.0	0.0	0.0	0.0
Minority interest	2.0	2.1	2.9	3.7	4.6
Treasury stock	0.0	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>7.4</b>	<b>6.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
Provisions for pensions	0.0	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0	0.0
Financial liabilities	6.5	5.4	1.4	1.4	1.4
Other payables	0.9	0.9	0.9	0.9	0.9
<b>Current liabilities</b>	<b>17.9</b>	<b>16.9</b>	<b>16.8</b>	<b>17.5</b>	<b>17.8</b>
Trade payables	12.9	12.0	11.9	12.5	12.8
Other provisions	0.0	0.0	0.0	0.0	0.0
Financial liabilities	2.7	2.7	2.7	2.7	2.7
Other liabilities	2.3	2.2	2.2	2.3	2.3
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>46.0</b>	<b>43.8</b>	<b>41.7</b>	<b>44.7</b>	<b>47.7</b>
Fiscal year end December					

Source: ecotel communication and DZ BANK estimates

**SUMMARY**

Euro m	2013	2014	2015e	2016e	2017e
<b>Profit and loss account</b>					
Total output	92.0	104.4	101.6	106.3	108.8
Cost of materials	-64.4	-74.9	-71.3	-74.2	-75.6
Personnel expenses	-10.6	-11.9	-11.7	-12.1	-12.3
Other operating income/expenses	-10.3	-10.4	-10.4	-10.7	-11.0
EBITDA	6.7	7.3	8.2	9.3	10.0
Depreciation	-3.4	-4.3	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.3	3.0	4.0	5.1	5.8
Interest paid / received	-0.2	-0.2	-0.2	-0.1	0.0
Profit before tax	3.1	2.8	3.8	5.0	5.7
Income taxes from continuing operations	-1.0	-1.0	-1.3	-1.7	-1.9
Net profit from continuing operations	2.1	1.8	2.5	3.3	3.8
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	2.1	1.8	2.5	3.3	3.8
Profit or loss attributable to minority interest	-0.6	-0.6	-0.8	-0.9	-0.9
Profit or loss attributable to shareholders	1.5	1.2	1.8	2.4	2.9
<b>Balance sheet</b>					
Non current assets	24.1	23.0	21.8	20.7	19.7
thereof goodwill	8.9	8.9	8.9	8.9	8.9
Current assets	21.9	20.8	19.9	24.0	28.0
thereof liquid assets	6.1	5.0	4.1	7.6	11.2
Shareholders' equity	20.8	20.7	22.6	25.0	27.6
Non current liabilities	7.4	6.2	2.2	2.2	2.2
Current liabilities	17.9	16.9	16.8	17.5	17.8
Shareholders' equity and liabilities	46.0	43.8	41.7	44.7	47.7
<b>Cash flow statement</b>					
Operating CF (cont.)	6.9	4.4	6.9	7.6	8.0
Operating CF (discont.)	0.0	0.0			
Investing CF (cont.)	-7.7	-2.9	-3.0	-3.1	-3.1
Investing CF (discont.)	0.0	0.0			
Free cash flow (cont.)	-0.8	1.5	3.9	4.5	4.9
Free cash flow (discont.)	0.0	0.0			
Financing CF (cont.)	-0.6	-2.7	-4.8	-1.0	-1.3
Financing CF (discont.)	0.0	0.0			
Increase/decrease of cash	-1.4	-1.1	-0.9	3.5	3.6
Fiscal year end December					

Source: ecotel communication and DZ BANK estimates

<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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Buy 70.4%, Hold 14.8%, Sell 14.8%

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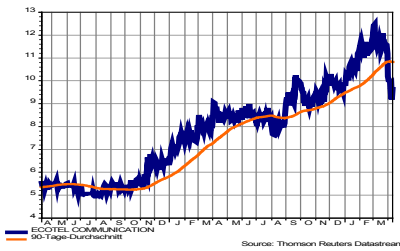
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Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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