

# TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

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

Reuters: E4CG.DE

Bloomberg: E4C GY

| Year * | Sales |        | Adj. IFRS-<br>Earnings per sh. |        | Cash flow<br>per share |        | PER  | PCF | Dividend<br>per share |
|--------|-------|--------|--------------------------------|--------|------------------------|--------|------|-----|-----------------------|
|        | EUR m |        | EUR                            |        | EUR                    |        |      |     |                       |
| 2011   | 84.5  | (81.9) | 0.42                           | (0.39) | 1.26                   | (1.21) | 11.5 | 3.8 | 0.00                  |
| 2012e  | 83.9  | (79.8) | 0.37                           | (0.52) | 1.17                   | (1.31) | 14.0 | 4.5 | 0.00                  |
| 2013e  | 84.4  | (80.4) | 0.62                           | (0.73) | 1.32                   | (1.45) | 8.4  | 3.9 | 0.00                  |
| 2014e  | 84.7  | (-)    | 0.81                           | (-)    | 1.45                   | (-)    | 6.5  | 3.6 | 0.00                  |

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

### New orders or cost-cutting programme needed in the medium term

- » Ecotel submitted **good business figures for 2011**. While the sales decreased by 14% as planned, the gross profit increased by 7% to EUR 24.6m and the EBITDA rose by 45% to EUR 7.1m. The company generated a free cash flow of almost EUR 5m and profit after taxes of EUR 1.1m.
- » For **2012** the management is expecting sales in the range of EUR 80-90m and an **EBITDA** in the range of **EUR 6-7m**. Furthermore, the management reiterated its target of obtaining an **EBITDA margin of 10%** in **2013** on the back of a comparable sales level.
- » After analysing the figures published by Ecotel in detail we consider the **guidance for 2012** to be **attainable, however we are putting a question mark over the profit target for 2013 for the first time**. We would like to point out that the loss of pre-selection customers is still continuing in the sector and that in future Ecotel will only be able to offset this erosion by acquiring new customers following the largely completed full access migration. We consider further, though probably smaller, risk factors to be the legal duty to announce the charge rate in the call-by-call business as well as Nacamar's business development. We are convinced that Ecotel needs larger new orders or a cost-cutting programme in order to obtain the financial medium-term targets.
- » We have lowered our **EBITDA forecast for 2012/13 by 10%** but are able to maintain our share price target since we factored a valuation buffer into our initiation study in September 2011. Our price target will probably be reached quicker with the share repurchase programme that Ecotel's Board of Managing Directors is planning.

| Selected<br>Companies                      | Price on<br>4 Apr 2012 | PER        |            | EV / EBITDA |            | EV /<br>Sales 12e | Re-<br>com. |
|--|------------------------|------------|------------|-------------|------------|-------------------|-------------|
|  |                        | 12e        | 13e        | 12e         | 13e        |                   |             |
| ecotel communication                       | 5.20 EUR               | 14.0       | 8.4        | 3.6         | 2.6        | 0.27              | ↑           |
| QSC  | 2.07 EUR               | 10.6       | 9.1        | 3.4         | 3.1        | 0.58              | ↓           |
| United Internet                            | 13.88 EUR              | 17.8       | 13.1       | 9.5         | 7.1        | 1.33              | ↑           |
| Mox Telecom AG                             | 5.15 EUR               | 5.3        | 3.9        | -           | -          | -                 | -           |
| freenet                                    | 12.39 EUR              | 6.7        | 6.4        | 5.1         | 4.8        | 0.58              | ↑           |
| <b>Median for all peer group companies</b> |                        | <b>8.7</b> | <b>7.8</b> | <b>5.1</b>  | <b>4.8</b> | <b>0.58</b>       | -           |

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

## EQUITIES

Flash  
5 Apr 2012

Buy (prev. Buy)

Closing price 4 Apr 2012

(in EUR): 5.20

Fair value: 7.00 (prev. 7.00)

Risk classification: 5

### Financial ratios 2012e:

|                                |      |
|--------------------------------|------|
| Book value per share (in EUR): | 5.63 |
| Equity ratio (in %):           | 50.6 |
| Net margin (in %):             | 2.4  |
| ROE (in %):                    | 8.8  |
| Dividend yield (in %):         | 0.0  |
| Free cash flow (EUR m):        | 3.8  |
| Net debt (EUR m):              | 0.6  |

### Number of shares

(million units): 3.9

### Market cap

(in EUR m): 20.28

Free float (in %): 21.6

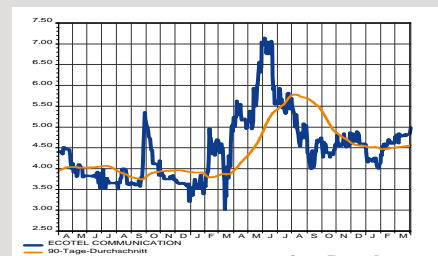
SIN: 585434

ISIN: DE0005854343

Datastream: D:E4CX

### Next Newsflow:

Q1 Figures in May 2012



Author: Joeri Sels, 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

In the recent quarters Ecotel managed to stabilise the business, while at the same time reducing debt significantly. The future prospects are bright. We forecast strong earnings growth in the years to come. This outlook is not yet reflected in the current share price level.

### Price sensitive current issues

- » Stabilisation of the business
- » Margin expansion

### Opportunities and risks

| Opportunities                             | Risks                       |
|---|-----------------------------|
| Better than expected business development | Impairment on Nacamar       |
| Dividend earlier than expected            | High Pre-selection exposure |
| Consolidation                             |                             |

## PROFIT AND LOSS ACCOUNT

| Euro m   | 2011        | 2012e       | 2013e       | 2014e       | 2015e       |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Sales</b>                                       | <b>84.5</b> | <b>83.9</b> | <b>84.4</b> | <b>84.7</b> | <b>84.7</b> |
| Change in inventory/Own work                       | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Total output</b>                                | <b>84.5</b> | <b>83.9</b> | <b>84.4</b> | <b>84.7</b> | <b>84.7</b> |
| % against prev. year                               | -14%        | -1%         | 1%          | 0%          | 0%          |
| Cost of materials                                  | -59.9       | -59.9       | -60.2       | -60.4       | -60.4       |
| Personnel expenses                                 | -9.7        | -9.4        | -9.1        | -8.8        | -8.8        |
| Other operating income                             | 1.6         | 1.0         | 1.0         | 1.0         | 1.0         |
| Other operating expenses                           | -9.5        | -9.3        | -8.9        | -8.5        | -8.5        |
| Extraordinary income/expenses                      | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>EBITDA</b>                                      | <b>7.0</b>  | <b>6.3</b>  | <b>7.2</b>  | <b>8.0</b>  | <b>8.0</b>  |
| For information: EBITDA adjusted                   | 6.8         | 6.3         | 7.2         | 8.0         | 8.0         |
| Depreciation                                       | -3.9        | -3.1        | -2.8        | -2.5        | -2.3        |
| thereof on goodwill                                | -0.4        | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Operating profit (EBIT)</b>                     | <b>3.1</b>  | <b>3.2</b>  | <b>4.5</b>  | <b>5.5</b>  | <b>5.7</b>  |
| For information: EBIT adjusted                     | 3.5         | 3.2         | 4.5         | 5.5         | 5.7         |
| % against prev. year                               | 133%        | -9%         | 40%         | 22%         | 4%          |
| Interest paid / received                           | -0.4        | -0.3        | -0.2        | -0.1        | 0.0         |
| <b>Profit before tax</b>                           | <b>2.7</b>  | <b>2.9</b>  | <b>4.3</b>  | <b>5.3</b>  | <b>5.6</b>  |
| For information: EBT adjusted                      | 3.1         | 2.9         | 4.3         | 5.3         | 5.6         |
| % against prev. year                               | 343%        | -5%         | 47%         | 24%         | 5%          |
| Income taxes from continuing operations            | -1.0        | -0.9        | -1.3        | -1.6        | -1.7        |
| Tax rate   | 37%         | 30%         | 30%         | 30%         | 30%         |
| <b>Net profit from continuing operations</b>       | <b>1.7</b>  | <b>2.1</b>  | <b>3.0</b>  | <b>3.7</b>  | <b>3.9</b>  |
| Net profit from discontinued operations            | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Net profit</b>                                  | <b>1.7</b>  | <b>2.1</b>  | <b>3.0</b>  | <b>3.7</b>  | <b>3.9</b>  |
| Profit or loss attributable to minority interest   | -0.6        | -0.6        | -0.6        | -0.6        | -0.6        |
| <b>Profit or loss attributable to shareholders</b> | <b>1.1</b>  | <b>1.5</b>  | <b>2.4</b>  | <b>3.1</b>  | <b>3.3</b>  |
| thereof from continuing operations                 | 1.1         | 1.5         | 2.4         | 3.1         | 3.3         |
| thereof from discontinued operations               | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Weighted average number of shares, diluted (m)     | 3.900       | 3.900       | 3.900       | 3.900       | 3.900       |
| IFRS earnings per share, diluted                   | 0.28        | 0.37        | 0.62        | 0.81        | 0.86        |
| Adjusted earnings per share, diluted (contin.)     | 0.42        | 0.37        | 0.62        | 0.81        | 0.86        |

Fiscal year end December

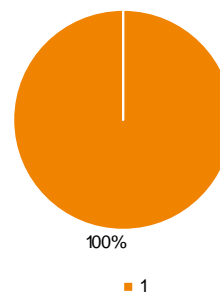
Source: ecotel communication and DZ BANK estimates

**RATIOS**

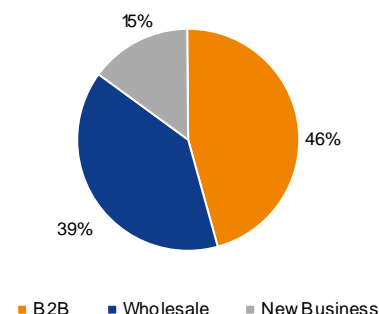
| Euro   | 2011   | 2012e  | 2013e  | 2014e  | 2015e  |
|--|--------|--------|--------|--------|--------|
| <b>Profit and loss ratios</b>                  |        |        |        |        |        |
| Total output (m)                               | 84.5   | 83.9   | 84.4   | 84.7   | 84.7   |
| EBITDA margin                                  | 8.0%   | 7.5%   | 8.6%   | 9.4%   | 9.4%   |
| EBIT margin                                    | 4.1%   | 3.8%   | 5.3%   | 6.4%   | 6.7%   |
| Net margin                                     | 2.6%   | 2.4%   | 3.6%   | 4.4%   | 4.7%   |
| Investment ratio                               | 0.0%   | 2.0%   | 2.0%   | 2.0%   | 2.0%   |
| R&D as % of total output                       |        |        |        |        |        |
| Net other operating costs as % of total output | 9.3%   | 9.9%   | 9.4%   | 8.8%   | 8.8%   |
| Net financial income as % of total output      | -0.5%  | -0.3%  | -0.2%  | -0.1%  | -0.1%  |
| Interest cover                                 | 7.8    | 12.6   | 26.1   | 51.4   | 131.7  |
| Average sales growth next five years           | 0.0%   |        |        |        |        |
| Average earnings growth next five years        | 16.7%  |        |        |        |        |
| <b>Profitability ratios</b>                    |        |        |        |        |        |
| ROE  | 10.4%  | 8.8%   | 11.4%  | 12.4%  | 11.5%  |
| ROCE   | 15.4%  | 14.9%  | 22.1%  | 28.1%  | 30.1%  |
| <b>Productivity ratios</b>                     |        |        |        |        |        |
| Sales per employee ('000)                      |        |        |        |        |        |
| EBIT per employee ('000)                       |        |        |        |        |        |
| <b>Balance sheet ratios</b>                    |        |        |        |        |        |
| Equity ratio                                   | 47.1%  | 50.6%  | 54.3%  | 57.5%  | 60.5%  |
| Long term debt and equity / Fixed assets       | 118.4% | 134.4% | 154.5% | 178.0% | 202.2% |
| Liquidity (quick ratio)                        | 126.8% | 151.3% | 181.1% | 211.8% | 242.6% |
| Receivables as % of total output               | 15.9%  | 15.9%  | 15.9%  | 15.9%  | 15.9%  |
| Investment (net of GW) / Depreciation          |        | 54.8%  | 61.7%  | 67.7%  | 74.3%  |
| Working capital as % of total output           | -0.2%  | -0.2%  | -0.2%  | -0.2%  | -0.2%  |
| Net debt (m)                                   | 4.1    | 0.6    | -3.4   | -8.0   | -12.5  |
| Net debt complete (m)                          | 2.9    | -0.6   | -4.6   | -9.2   | -13.7  |
| <b>Figures per share</b>                       |        |        |        |        |        |
| Earnings per share, diluted                    | 0.42   | 0.37   | 0.62   | 0.81   | 0.86   |
| Diluted cash earnings per share                | 1.26   | 1.17   | 1.32   | 1.45   | 1.44   |
| Dividend per common share                      | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Cash per share, diluted                        | 1.59   | 2.22   | 3.08   | 4.25   | 5.41   |
| Net debt per share, diluted                    | 1.05   | 0.17   | -0.88  | -2.04  | -3.20  |
| <b>Valuation ratios</b>                        |        |        |        |        |        |
| Enterprise value / Sales                       | 0.3    | 0.3    | 0.2    | 0.2    | 0.1    |
| Enterprise value / EBITDA                      | 3.5    | 3.6    | 2.6    | 1.9    | 1.4    |
| Enterprise value / EBIT                        | 6.8    | 7.0    | 4.2    | 2.8    | 2.0    |
| EV/Sales to sales growth                       | -0.09  | 6.54   | 5.49   | 4.33   | 3.20   |
| PEG ratio - common shares                      |        | 0.84   |        |        |        |
| Fiscal year end December                       |        |        |        |        |        |

Source: ecotel communication, DZ BANK estimates

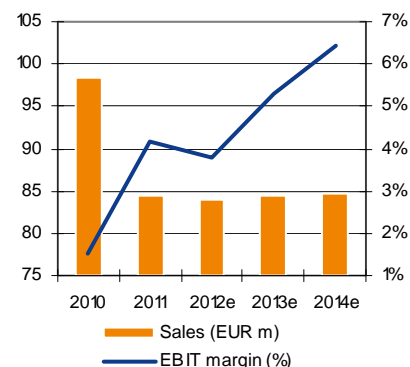
**SALES BY REGION 2010**



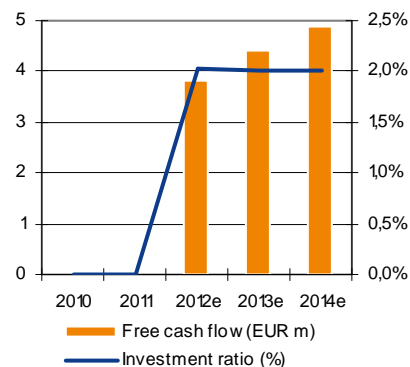
**SALES BY BUSINESS SEGMENT 2010**



**SALES AND MARGIN DEVELOPMENT**



**FREE CASH FLOW AND INVESTMENT RATIO**



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

|   | 2011   | 2012e  | 2013e  | 2014e  | 2015e  |
|---|--------|--------|--------|--------|--------|
| <b>Profit and loss account (EUR m)</b>      |        |        |        |        |        |
| Total output                                | 84.5   | 83.9   | 84.4   | 84.7   | 84.7   |
| Cost of materials                           | -59.9  | -59.9  | -60.2  | -60.4  | -60.4  |
| Personnel expenses                          | -9.7   | -9.4   | -9.1   | -8.8   | -8.8   |
| Other operating income/expenses             | -7.9   | -8.3   | -7.9   | -7.5   | -7.5   |
| EBITDA                                      | 7.0    | 6.3    | 7.2    | 8.0    | 8.0    |
| Operating profit (EBIT)                     | 3.1    | 3.2    | 4.5    | 5.5    | 5.7    |
| Interest paid / received                    | -0.4   | -0.3   | -0.2   | -0.1   | 0.0    |
| Income taxes from continuing operations     | -1.0   | -0.9   | -1.3   | -1.6   | -1.7   |
| Net profit from continuing operations       | 1.7    | 2.1    | 3.0    | 3.7    | 3.9    |
| Net profit                                  | 1.7    | 2.1    | 3.0    | 3.7    | 3.9    |
| Profit or loss attributable to shareholders | 1.1    | 1.5    | 2.4    | 3.1    | 3.3    |
| <b>Profit and loss ratios</b>               |        |        |        |        |        |
| EBITDA margin                               | 8.0%   | 7.5%   | 8.6%   | 9.4%   | 9.4%   |
| EBIT margin                                 | 4.1%   | 3.8%   | 5.3%   | 6.4%   | 6.7%   |
| Tax rate                                    | 37.0%  | 30.0%  | 30.0%  | 30.0%  | 30.0%  |
| Net margin                                  | 2.6%   | 2.4%   | 3.6%   | 4.4%   | 4.7%   |
| Investment ratio                            | 0.0%   | 2.0%   | 2.0%   | 2.0%   | 2.0%   |
| Average sales growth next five years        | 0.0%   |        |        |        |        |
| Average earnings growth next five years     | 16.7%  |        |        |        |        |
| <b>Balance sheet ratios</b>                 |        |        |        |        |        |
| Equity ratio                                | 47.1%  | 50.6%  | 54.3%  | 57.5%  | 60.5%  |
| Long term debt and equity / Fixed assets    | 118.4% | 134.4% | 154.5% | 178.0% | 202.2% |
| Liquidity (quick ratio)                     | 126.8% | 151.3% | 181.1% | 211.8% | 242.6% |
| Receivables as % of total output            | 15.9%  | 15.9%  | 15.9%  | 15.9%  | 15.9%  |
| Investment (net of GW) / Depreciation       |        | 54.8%  | 61.7%  | 67.7%  | 74.3%  |
| Working capital as % of total output        | -0.2%  | -0.2%  | -0.2%  | -0.2%  | -0.2%  |
| <b>Cash flow statement (EUR m)</b>          |        |        |        |        |        |
| Operating CF (cont.)                        | 0.0    | 5.4    | 5.9    | 6.4    | 6.3    |
| Operating CF (discont.)                     | 0.0    |        |        |        |        |
| Investing CF (cont.)                        | 0.0    | -1.6   | -1.5   | -1.5   | -1.4   |
| Investing CF (discont.)                     | 0.0    |        |        |        |        |
| Free cash flow (cont.)                      | 0.0    | 3.8    | 4.4    | 4.9    | 4.9    |
| Free cash flow (discont.)                   | 0.0    |        |        |        |        |
| Financing CF (cont.)                        | 0.0    | -1.4   | -1.0   | -0.3   | -0.3   |
| Financing CF (discont.)                     | 0.0    |        |        |        |        |
| Increase/decrease of cash                   | 0.0    | 2.5    | 3.4    | 4.6    | 4.5    |
| <b>Profitability ratios</b>                 |        |        |        |        |        |
| ROE   | 10.4%  | 8.8%   | 11.4%  | 12.4%  | 11.5%  |
| ROCE  | 15.4%  | 14.9%  | 22.1%  | 28.1%  | 30.1%  |
| <b>Figures per share (EUR)</b>              |        |        |        |        |        |
| Earnings per share, diluted                 | 0.42   | 0.37   | 0.62   | 0.81   | 0.86   |
| Diluted cash earnings per share             | 1.26   | 1.17   | 1.32   | 1.45   | 1.44   |
| Net debt per share, diluted                 | 1.05   | 0.17   | -0.88  | -2.04  | -3.20  |
| <b>Valuation ratios</b>                     |        |        |        |        |        |
| Enterprise value / Sales                    | 0.3    | 0.3    | 0.2    | 0.2    | 0.1    |
| Enterprise value / EBITDA                   | 3.5    | 3.6    | 2.6    | 1.9    | 1.4    |
| Enterprise value / EBIT                     | 6.8    | 7.0    | 4.2    | 2.8    | 2.0    |
| P/E common shares                           | 11.5   | 14.0   | 8.4    | 6.5    | 6.1    |

<sup>1) - 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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2011

2012e

2013e

2014e

2015e

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Source: ecotel communication and DZ BANK estimates

**IMPRINT**

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Buy 72.1%, Hold 8.4%, Sell 19.5%

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Buy 17.2%, Hold 29.6%, Sell 9.5%

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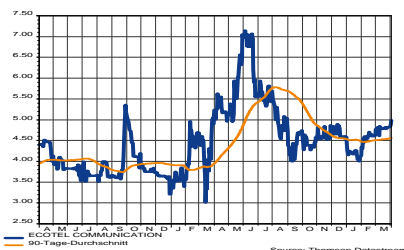
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| Recommendation | Date        | Price    |
|----------------|-------------|----------|
| Buy            | 28 Sep 2011 | 5.00 EUR |

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