

# TELECOMMUNICATION

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	
	EUR m		EUR			EUR	%		EUR
2015	106.3	(106.3)	0.46	(0.46)	18.3	1.52	(1.52)	18.0	0.23
2016e	104.0	(104.0)	0.44	(0.44)	19.2	0.98	(0.98)	11.7	0.22
2017e	107.5	(107.5)	0.61	(0.61)	13.6	1.19	(1.19)	14.3	0.30
2018e	111.0	(111.0)	0.70	(0.70)	11.9	1.26	(1.26)	15.1	0.35

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

### Start to 2016 as planned

- » **Q1 2016:** Sales rose by EUR 3.9m year-over-year. EUR 3.3m of this was due to the low-margin Reseller segment. Crucial, in our opinion, is the EUR 0.8m rise in sales observed in core B2B business which revealed a gross profit margin of around 48%, a value which was steady when compared to the previous year. EBITDA reached EUR 1.9m compared to EUR 2.7m in the previous year, though the latter figure contains non-recurring earnings of EUR 1.3m from a court settlement. Adjusted EBITDA thus rose by EUR 0.5m and reflects the positive development in core business. EPS stood at EUR 0.10 compared to EUR 0.22 in Q1 2015.
- » **Outlook:** Management confirmed full-year guidance and continues to expect sales of between EUR 95m and EUR 105m and an EBITDA of between EUR 7.0m and EUR 8.5m.
- » **Launch of own SNO:** Based on start-of-the-art NGN technology, ecotel now acts as independent subscriber network operator (SNO) throughout the whole of Germany. Alongside wholesale products, ecotel can now design its own completely independent ITC products and tariffs. The focus here will be on developing sustainable NGN and all-IP services for business customers.
- » **Model/Valuation:** We are leaving our financial model unchanged and reiterate the fair value at EUR 12.00.

**Q1 2016 results were in line with our expectations and management has left full-year outlook unchanged. A key event was the launch of its own subscriber network operations. We confirm our BUY recommendation with an underlying fair value of EUR 12.00.**

Selected Companies	Price on 13 May 2016	PER		EV / EBITDA		EV / Sales 16e	Re- com.
		16e	17e	16e	17e		
ecotel communication	8.35 EUR	19.2	13.6	3.7	3.1	0.27	↑
Deutsche Telekom	15.93 EUR	14.4	17.8	6.5	6.9	2.02	↑
United Internet	43.17 EUR	31.0	17.4	12.8	11.1	2.72	↑
QSC	1.30 EUR	–	260.0	6.8	6.2	0.66	–
Telefónica Deutschland	4.70 EUR	–	–	8.5	7.7	1.95	↓
<b>Median for all peer group companies</b>		<b>22.7</b>	<b>17.8</b>	<b>7.7</b>	<b>7.3</b>	<b>1.99</b>	–

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

## EQUITIES

Flash  
17 May 2016

**Buy** (prev. Buy)

**Closing price 13 May 2016**

(in EUR): 8.35  
**Fair value:** 12.00 (prev. 12.00)

### Financial ratios 2016e:

Book value per share (in EUR):	5.73
Equity ratio (in %):	48.9
Net margin (in %):	2.2
ROE (in %):	9.6
Dividend yield (in %):	2.6
Free cash flow (EUR m):	3.4
Net debt (EUR m):	-4.5

### Number of shares

(million units): 3.5

### Market cap

(in EUR m): 29.56

**Free float (in %):** 26.0

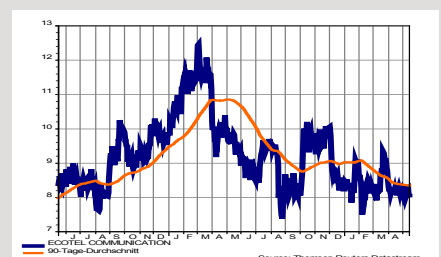
**SIN:** 585434

**ISIN:** DE0005854343

**Datastream:** D:E4CX

### Next Newsflow:

11.08.2016: Q2 2016



Author: Karsten Oblinger, Analyst

**DZ BANK**  
Bank on Germany

## AT A GLANCE

### Company profile

ecotel communications is a telecom 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 a further positive business development. Key drivers are large projects of the B2B segment 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	

<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	2015	2016e	2017e	2018e
<b>Sales</b>	<b>106.3</b>	<b>104.0</b>	<b>107.5</b>	<b>111.0</b>
Change in inventory/Own work	2.3	0.8	0.8	0.8
<b>Total output</b>	<b>108.6</b>	<b>104.8</b>	<b>108.3</b>	<b>111.8</b>
% against prev. year	4%	-4%	3%	3%
Cost of materials	-78.6	-74.9	-77.0	-79.1
Personnel expenses	-11.9	-11.9	-12.2	-12.3
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.3	-10.3	-10.6	-11.4
Extraordinary income/expenses	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>7.9</b>	<b>7.7</b>	<b>8.5</b>	<b>9.0</b>
For information: EBITDA adjusted	7.6	7.7	8.5	9.0
Depreciation	-4.2	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>3.6</b>	<b>3.5</b>	<b>4.3</b>	<b>4.8</b>
For information: EBIT adjusted	3.6	3.5	4.3	4.8
% against prev. year	22%	-5%	24%	11%
Interest paid / received	-0.1	-0.1	0.1	0.2
<b>Profit before tax</b>	<b>3.5</b>	<b>3.4</b>	<b>4.4</b>	<b>5.0</b>
For information: EBT adjusted	3.5	3.4	4.4	5.0
% against prev. year	26%	-3%	30%	12%
Income taxes from continuing operations	-1.1	-1.1	-1.5	-1.7
Tax rate	31%	34%	34%	34%
<b>Net profit from continuing operations</b>	<b>2.4</b>	<b>2.3</b>	<b>2.9</b>	<b>3.3</b>
Net profit from discontinued operations	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>2.4</b>	<b>2.3</b>	<b>2.9</b>	<b>3.3</b>
Profit or loss attributable to minority interest	-0.8	-0.7	-0.8	-0.9
<b>Profit or loss attributable to shareholders</b>	<b>1.6</b>	<b>1.5</b>	<b>2.1</b>	<b>2.4</b>
thereof from continuing operations	1.6	1.5	2.1	2.4
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	0.46	0.44	0.61	0.70
Adjusted earnings per share, diluted (contin.)	0.46	0.44	0.61	0.70

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

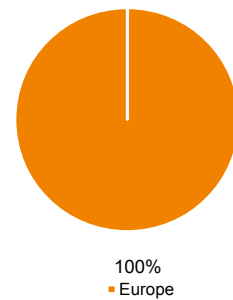
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**RATIOS**

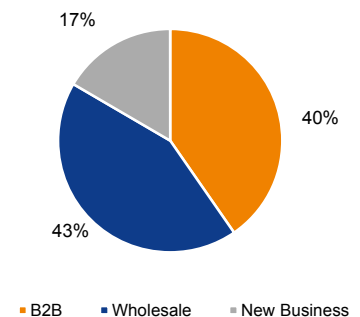
Euro	2015	2016e	2017e	2018e
<b>Profit and loss ratios</b>				
Total output (m)	108.6	104.8	108.3	111.8
EBITDA margin	7.0%	7.3%	7.9%	8.1%
EBIT margin	3.4%	3.3%	4.0%	4.3%
Net margin	2.2%	2.2%	2.7%	3.0%
Investment ratio	3.0%	2.7%	2.9%	2.9%
R&D as % of total output				
Net other operating costs as % of total output	9.5%	9.8%	9.8%	10.2%
Net financial income as % of total output	-0.1%	-0.1%	0.1%	0.2%
Interest cover	28.0	61.2		
Average sales growth next five years	4.0%			
Average earnings growth next five years				
<b>Profitability ratios</b>				
ROE	11.0%	9.6%	11.5%	11.8%
ROCE	19.0%	19.1%	25.3%	30.1%
<b>Productivity ratios</b>				
Sales per employee ('000)	506.38	494.34	510.85	527.36
EBIT per employee ('000)	16.97	16.32	20.24	22.50
<b>Balance sheet ratios</b>				
Equity ratio	43.8%	48.9%	51.4%	52.8%
Long term debt and equity / Fixed assets	121.9%	122.9%	136.2%	156.0%
Liquidity (quick ratio)	119.7%	119.8%	129.2%	141.9%
Receivables as % of total output	16.3%	16.9%	16.9%	16.9%
Investment (net of GW) / Depreciation		66.0%	73.1%	75.5%
Working capital as % of total output	-1.9%	-1.6%	-1.6%	-1.6%
Net debt (m)	-2.5	-4.5	-7.4	-10.7
Net debt complete (m)	-3.9	-6.4	-9.7	-13.1
<b>Figures per share</b>				
Earnings per share, diluted	0.46	0.44	0.61	0.70
Free cash flow per share, diluted	1.52	0.98	1.19	1.26
Dividend per common share	0.23	0.22	0.30	0.35
Cash per share, diluted	2.19	1.99	2.66	3.60
Net debt per share, diluted	-0.70	-1.27	-2.08	-3.02
<b>Valuation ratios</b>				
Enterprise value / Sales	0.3	0.3	0.2	0.2
Enterprise value / EBITDA	3.9	3.7	3.1	2.6
Enterprise value / EBIT	8.2	8.2	6.1	5.0
EV/Sales to sales growth	0.07	0.07	0.06	0.05
PEG ratio - common shares				
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

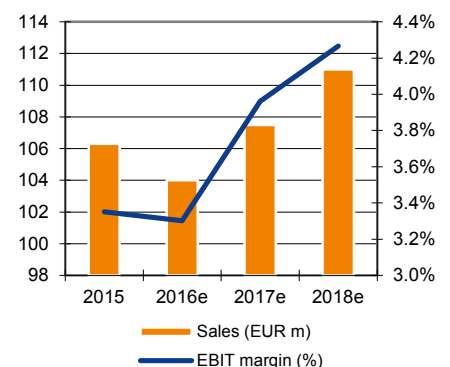
**SALES BY REGION 2015**



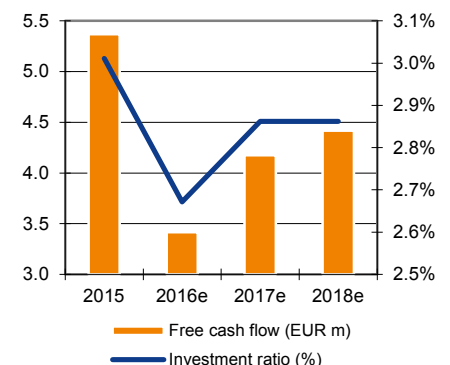
**SALES BY BUSINESS SEGMENT 2015**



**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	2015	2016e	2017e	2018e
<b>ASSETS</b>				
<b>Non current assets</b>	<b>22.0</b>	<b>20.6</b>	<b>19.4</b>	<b>18.4</b>
Intangible assets	12.7	12.1	11.7	11.3
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	8.5	7.6	7.0	6.3
Financial assets	0.8	0.8	0.8	0.8
Other long-term assets	0.0	0.0	0.0	0.0
<b>Current assets</b>	<b>28.2</b>	<b>27.5</b>	<b>30.5</b>	<b>34.4</b>
Inventories	0.0	0.0	0.0	0.0
Trade receivables	17.7	17.7	18.3	18.9
Financial assets	1.7	1.7	1.7	1.7
Other receivables and short-term assets	1.0	1.0	1.1	1.1
Liquid assets	7.7	7.0	9.4	12.7
Assets available for sale	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>50.2</b>	<b>48.0</b>	<b>49.9</b>	<b>52.8</b>
<b>LIABILITIES</b>				
<b>Shareholders' equity</b>	<b>22.0</b>	<b>23.5</b>	<b>25.6</b>	<b>27.9</b>
Share capital	3.5	3.5	3.5	3.5
Reserves	16.1	16.8	18.2	19.5
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.4	3.2	4.0	4.8
Treasury stock	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>4.8</b>	<b>1.8</b>	<b>0.8</b>	<b>0.8</b>
Provisions for pensions	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	4.0	1.0	0.0	0.0
Other payables	0.9	0.9	0.9	0.9
<b>Current liabilities</b>	<b>23.4</b>	<b>22.7</b>	<b>23.4</b>	<b>24.1</b>
Trade payables	19.4	19.0	19.7	20.3
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.3	2.1	2.1	2.1
Other liabilities	1.6	1.6	1.6	1.7
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>50.2</b>	<b>48.0</b>	<b>49.9</b>	<b>52.8</b>
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

**SUMMARY**

Euro m	2015	2016e	2017e	2018e
<b>Profit and loss account</b>				
Total output	108.6	104.8	108.3	111.8
Cost of materials	-78.6	-74.9	-77.0	-79.1
Personnel expenses	-11.9	-11.9	-12.2	-12.3
Other operating income/expenses	-10.3	-10.3	-10.6	-11.4
EBITDA	7.9	7.7	8.5	9.0
Depreciation	-4.2	-4.2	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.6	3.5	4.3	4.8
Interest paid / received	-0.1	-0.1	0.1	0.2
Profit before tax	3.5	3.4	4.4	5.0
Income taxes from continuing operations	-1.1	-1.1	-1.5	-1.7
Net profit from continuing operations	2.4	2.3	2.9	3.3
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	2.4	2.3	2.9	3.3
Profit or loss attributable to minority interest	-0.8	-0.7	-0.8	-0.9
Profit or loss attributable to shareholders	1.6	1.5	2.1	2.4
<b>Balance sheet</b>				
Non current assets	22.0	20.6	19.4	18.4
thereof goodwill	8.9	8.9	8.9	8.9
Current assets	28.2	27.5	30.5	34.4
thereof liquid assets	7.7	7.0	9.4	12.7
Shareholders' equity	22.0	23.5	25.6	27.9
Non current liabilities	4.8	1.8	0.8	0.8
Current liabilities	23.4	22.7	23.4	24.1
Shareholders' equity and liabilities	50.2	48.0	49.9	52.8
<b>Cash flow statement</b>				
Operating CF (cont.)	8.5	6.2	7.1	7.4
Operating CF (discont.)	0.0			
Investing CF (cont.)	-3.2	-2.8	-2.9	-3.0
Investing CF (discont.)	0.0			
Free cash flow (cont.)	5.4	3.4	4.2	4.4
Free cash flow (discont.)	0.0			
Financing CF (cont.)	-2.6	-4.1	-1.8	-1.1
Financing CF (discont.)	0.0			
Increase/decrease of cash	2.8	-0.7	2.4	3.3
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

<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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**DZ BANK RESEARCH – ALL COVERED COMPANIES**

Buy 66.7%, Hold 18.4%, Sell 14.9%

**PERCENTAGE OF COMPANIES WITHIN EACH CATEGORY FOR WHICH DZ BANK, DZ FINANCIAL MARKETS LCC AND/OR RESPECTIVE AFFILIATES HAVE PROVIDED INVESTMENT BANKING SERVICES WITHIN THE PREVIOUS 12 MONTHS**

Buy 18.6%, Hold 9.6%, Sell 4.8%

Figures as at 06 Apr 2016

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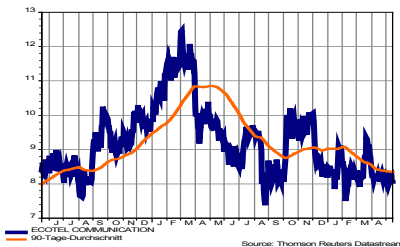
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Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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