

TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

ecotel communication³⁾⁶⁾

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				
2012	94.3	(94.3)	-0.70	(-0.70)	0.21	(0.21)	-	24.0	0.00
2013	91.4	(91.4)	0.42	(0.42)	1.37	(1.36)	15.0	4.6	0.00
2014e	95.0	(92.5)	0.48	(0.49)	1.56	(1.59)	18.0	5.5	0.00
2015e	97.9	(95.6)	0.71	(0.70)	1.92	(1.91)	12.1	4.5	0.00

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

Fair value raised to EUR 11

- » **Annual Report 2013:** ecotel already reported preliminary key figures for 2013 at the start of March which have now been confirmed in the annual report. Sales came in at EUR 91.4m (-3% yoy), the EBITDA amounted to EUR 6.7m (-2% yoy), the EBIT was EUR 3.3m (vs. EUR 0.4m in 2012) and the EPS came in at EUR 0.42 (vs. EUR 0.70 in 2012).
- » **Outlook 2014:** The management is hoping to obtain group sales of EUR 85-95m (DZe: EUR 95m) and an EBITDA of EUR 6.5-7.5m (DZe: EUR 7.4m).
- » **Medium-term forecast:** For a long time now ecotel has had the medium-term goal of increasing the group sales to EUR 100m (DZe: EUR 98m) and the EBITDA to EUR 10m (DZe: 9 Mio. EUR) by 2015. These financial targets were confirmed in principle, however provided that an unanticipated six-month delay of a line migration planned for 2014 can be compensated by 2015. Our planning currently assumes that the attainment of the targets mentioned above will be delayed until 2016. The main drivers for the further growth of the company are Easybell's DSL private customer business in the "New Business" segment and the major Allianz order in the B2B business.

Ecotel has, for the first time, issued an outlook for 2014 that is in line with our expectations. Furthermore, the medium-term forecast for 2015 was confirmed conditionally. We still assume that the planned EBITDA target of EUR 10m will be reached but that the attainment will be postponed until FY 2016. Moreover, a share repurchase programme of up to 90,000 shares was announced. We are raising the fair value from EUR 9 to EUR 11 and still consider our target valuation to be very moderate, as this still contains a significant MicroCap discount.

Selected Companies	Price on 2 Apr 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
ecotel communication	8.62 EUR	18.0	12.1	4.5	3.2	0.35	↑
QSC	3.65 EUR	28.4	16.6	6.7	4.7	1.05	-
United Internet	34.69 EUR	23.9	20.5	13.6	11.8	2.41	↑
Mox Telecom AG	5.11 EUR	-	-	-	-	-	-
freenet	25.59 EUR	13.5	12.4	10.2	9.7	1.13	↑
Median for all peer group companies		23.9	16.6	10.2	9.7	1.13	-

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

EQUITIES

Flash
3 Apr 2014

Buy (prev. Buy)

Closing price 2 Apr 2014

(in EUR): 8.62
Fair value: 11.00 (prev. 9.00)

Financial ratios 2014e:

Book value per share (in EUR):	5.83
Equity ratio (in %):	49.1
Net margin (in %):	2.4
ROE (in %):	9.9
Dividend yield (in %):	0.0
Free cash flow (EUR m):	3.0
Net debt (EUR m):	0.5

Number of shares

(million units): 3.5

Market cap

(in EUR m): 30.17

Free float (in %):

22.5

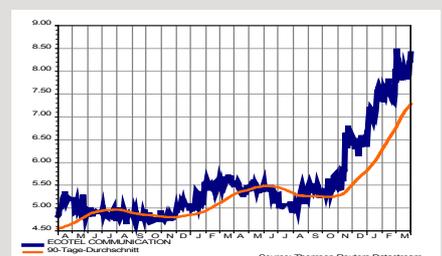
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DZ BANK
Bank on Germany

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	

¹⁾⁻⁹⁾ 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	2012	2013	2014e	2015e	2016e
Sales	94.3	91.4	95.0	97.9	100.0
Change in inventory/Own work	0.1	0.6	0.5	0.7	0.5
Total output	94.4	92.0	95.5	98.6	100.5
% against prev. year	12%	-3%	4%	3%	2%
Cost of materials	-69.2	-64.4	-67.3	-68.3	-68.7
Personnel expenses	-10.0	-10.6	-10.7	-11.0	-11.2
Other operating income	1.0	0.0	0.0	0.0	0.0
Other operating expenses	-9.3	-10.3	-10.1	-10.4	-10.6
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	6.8	6.7	7.4	8.9	10.0
For information: EBITDA adjusted	3.8	6.7	7.4	8.9	10.0
Depreciation	-6.5	-3.4	-3.8	-4.1	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	0.4	3.3	3.6	4.8	5.8
For information: EBIT adjusted	0.4	3.3	3.6	4.8	5.8
% against prev. year	-89%	735%	9%	34%	22%
Interest paid / received	-1.3	-0.2	-0.3	-0.2	-0.1
Profit before tax	-0.9	3.1	3.3	4.6	5.8
For information: EBT adjusted	-0.9	3.1	3.3	4.6	5.8
% against prev. year	-128%		7%	40%	25%
Income taxes from continuing operations	-0.8	-1.0	-1.0	-1.5	-1.8
Tax rate	-87%	31%	31%	32%	32%
Net profit from continuing operations	-1.6	2.1	2.3	3.2	3.9
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	-1.6	2.1	2.3	3.2	3.9
Profit or loss attributable to minority interest	-0.9	-0.6	-0.6	-0.8	-0.9
Profit or loss attributable to shareholders	-2.6	1.5	1.7	2.4	3.1
thereof from continuing operations	-2.6	1.5	1.7	2.4	3.1
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.700	3.600	3.500	3.400	3.400
IFRS earnings per share, diluted	-0.70	0.42	0.48	0.71	0.91
Adjusted earnings per share, diluted (contin.)	-0.70	0.42	0.48	0.71	0.91

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

RATIOS

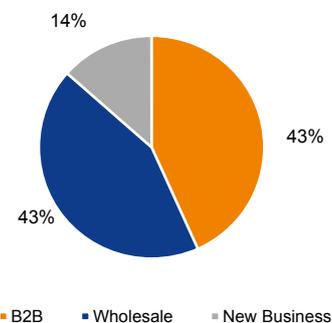
Euro	2012	2013	2014e	2015e	2016e
Profit and loss ratios					
Total output (m)	94.4	92.0	95.5	98.6	100.5
EBITDA margin	4.0%	7.3%	7.7%	9.0%	10.0%
EBIT margin	0.4%	3.6%	3.7%	4.9%	5.8%
Net margin	-1.7%	2.3%	2.4%	3.2%	3.9%
Investment ratio	3.0%	8.9%	5.4%	3.0%	2.8%
R&D as % of total output					
Net other operating costs as % of total output	8.8%	11.2%	10.6%	10.5%	10.5%
Net financial income as % of total output	-1.4%	-0.2%	-0.3%	-0.2%	-0.1%
Interest cover	0.3	15.1	12.7	26.7	74.9
Average sales growth next five years	1.6%	2.3%			
Average earnings growth next five years		20.4%			
Profitability ratios					
ROE	-8.5%	10.2%	9.9%	12.1%	13.1%
ROCE	2.2%	14.2%	15.6%	22.1%	28.7%
Productivity ratios					
Sales per employee ('000)	499.54	973.53		483.33	966.35
EBIT per employee ('000)	2.09	34.85		23.53	56.15
Balance sheet ratios					
Equity ratio	45.3%	45.1%	49.1%	54.0%	59.4%
Long term debt and equity / Fixed assets	117.5%	116.6%	111.4%	121.2%	137.1%
Liquidity (quick ratio)	119.7%	121.8%	115.1%	126.7%	143.6%
Receivables as % of total output	13.3%	15.4%	13.6%	13.6%	13.6%
Investment (net of GW) / Depreciation			136.1%	73.2%	66.7%
Working capital as % of total output	-2.1%	0.0%	-1.8%	-1.8%	-1.8%
Net debt (m)	-0.2	3.1	0.5	-3.9	-9.2
Net debt complete (m)	-1.5	2.0	-0.7	-5.0	-10.4
Figures per share					
Earnings per share, diluted	-0.70	0.42	0.48	0.71	0.91
Diluted cash earnings per share	0.21	1.37	1.56	1.92	2.14
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	2.04	1.70	1.93	2.66	3.66
Net debt per share, diluted	-0.06	0.86	0.13	-1.13	-2.72
Valuation ratios					
Enterprise value / Sales	0.2	0.3	0.3	0.3	0.2
Enterprise value / EBITDA	5.4	4.2	4.5	3.2	2.4
Enterprise value / EBIT	51.7	8.5	9.3	6.0	4.2
EV/Sales to sales growth	0.06	0.20	0.15	0.13	0.11
PEG ratio - common shares			0.88		
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

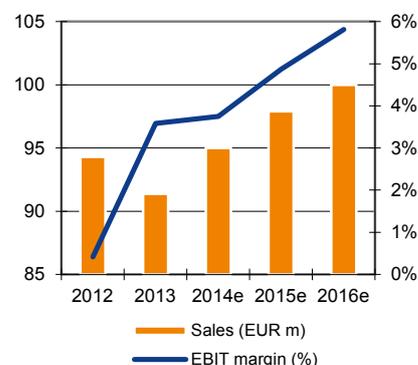
SALES BY REGION 2012



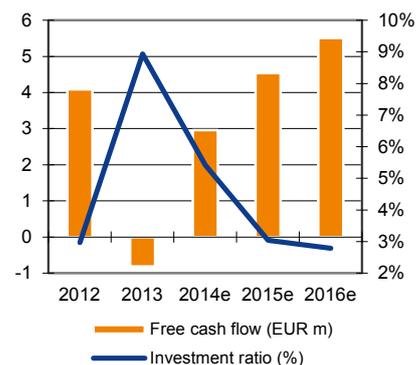
SALES BY BUSINESS SEGMENT 2012



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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

BALANCE SHEET

IFRS - Euro m	2012	2013	2014e	2015e	2016e
ASSETS					
Non current assets	21.1	24.1	25.5	24.4	23.0
Intangible assets	13.8	13.8	15.3	14.9	14.3
thereof goodwill	8.9	8.9	8.9	8.9	8.9
Tangible assets	5.9	9.4	9.3	8.6	7.8
Financial assets	1.4	0.9	0.9	0.9	0.9
Other long-term assets	0.0	0.0	0.0	0.0	0.0
Current assets	21.5	21.9	21.4	24.1	27.8
Inventories	0.1	0.1	0.1	0.1	0.1
Trade receivables	12.5	14.2	13.0	13.4	13.7
Financial assets	1.3	1.1	1.1	1.1	1.1
Other receivables and short-term assets	0.0	0.3	0.4	0.4	0.4
Liquid assets	7.5	6.1	6.7	9.1	12.4
Assets available for sale	0.0	0.0	0.0	0.0	0.0
Total assets	42.7	46.0	46.9	48.5	50.8
LIABILITIES					
Shareholders' equity	19.3	20.8	23.0	26.2	30.1
Share capital	3.7	3.6	3.6	3.6	3.6
Reserves	13.9	15.1	16.8	19.2	22.3
Other equity	0.0	0.0	0.0	0.0	0.0
Minority interest	1.7	2.0	2.6	3.4	4.2
Treasury stock	0.0	0.0	0.0	0.0	0.0
Non current liabilities	5.5	7.4	5.4	3.4	1.4
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	4.8	6.5	4.5	2.5	0.5
Other payables	0.7	0.9	0.9	0.9	0.9
Current liabilities	17.8	17.9	18.4	18.9	19.2
Trade payables	13.0	12.9	13.4	13.8	14.1
Other provisions	0.0	0.0	0.0	0.0	0.0
Financial liabilities	2.5	2.7	2.7	2.7	2.7
Other liabilities	2.4	2.3	2.4	2.4	2.4
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	42.7	46.0	46.9	48.5	50.8
Fiscal year end December					

Source: ecotel communication and DZ BANK estimates

SUMMARY

Euro m	2012	2013	2014e	2015e	2016e
Profit and loss account					
Total output	94.4	92.0	95.5	98.6	100.5
Cost of materials	-69.2	-64.4	-67.3	-68.3	-68.7
Personnel expenses	-10.0	-10.6	-10.7	-11.0	-11.2
Other operating income/expenses	-8.3	-10.3	-10.1	-10.4	-10.6
EBITDA	6.8	6.7	7.4	8.9	10.0
Depreciation	-6.5	-3.4	-3.8	-4.1	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	0.4	3.3	3.6	4.8	5.8
Interest paid / received	-1.3	-0.2	-0.3	-0.2	-0.1
Profit before tax	-0.9	3.1	3.3	4.6	5.8
Income taxes from continuing operations	-0.8	-1.0	-1.0	-1.5	-1.8
Net profit from continuing operations	-1.6	2.1	2.3	3.2	3.9
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	-1.6	2.1	2.3	3.2	3.9
Profit or loss attributable to minority interest	-0.9	-0.6	-0.6	-0.8	-0.9
Profit or loss attributable to shareholders	-2.6	1.5	1.7	2.4	3.1
Balance sheet					
Non current assets	21.1	24.1	25.5	24.4	23.0
thereof goodwill	8.9	8.9	8.9	8.9	8.9
Current assets	21.5	21.9	21.4	24.1	27.8
thereof liquid assets	7.5	6.1	6.7	9.1	12.4
Shareholders' equity	19.3	20.8	23.0	26.2	30.1
Non current liabilities	5.5	7.4	5.4	3.4	1.4
Current liabilities	17.8	17.9	18.4	18.9	19.2
Shareholders' equity and liabilities	42.7	46.0	46.9	48.5	50.8
Cash flow statement					
Operating CF (cont.)	6.8	6.9	8.1	7.5	8.3
Operating CF (discont.)	0.0	0.0			
Investing CF (cont.)	-2.7	-7.7	-5.1	-3.0	-2.8
Investing CF (discont.)	0.0	0.0			
Free cash flow (cont.)	4.1	-0.8	3.0	4.5	5.5
Free cash flow (discont.)	0.0	0.0			
Financing CF (cont.)	-2.8	-0.6	-2.3	-2.2	-2.1
Financing CF (discont.)	0.0	0.0			
Increase/decrease of cash	1.3	-1.4	0.6	2.3	3.4
Fiscal year end December					

Source: ecotel communication and DZ BANK estimates

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

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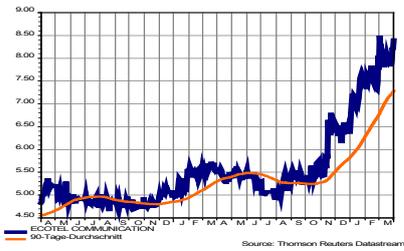
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RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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