

# TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

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

Reuters: E4CG.DE

Bloomberg: E4C GY

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2011	84.5 (84.5)	0.42 (0.42)	1.26 (1.26)	11.5	3.8	0.00
2012e	93.5 (92.9)	0.45 (0.35)	1.32 (1.15)	10.9	3.7	0.15
2013e	86.3 (93.5)	0.54 (0.60)	1.47 (1.31)	9.1	3.4	0.00
2014e	92.8 (93.8)	0.81 (0.80)	1.78 (1.45)	6.1	2.8	0.25

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

### Solid Q3 2012, guidance confirmed and a promising major contract

- » **Solid Q3 2012:** ecotel reported a solid Q3 in line with our expectations and which continues the stabilising trend in recent quarters.  
Sales: EUR 23.9m / DZe: EUR 24.0m  
EBITDA: EUR 1.6m / DZe: EUR 1.5m  
EBIT: EUR 0.7m / DZe: EUR 0.6m
- » **Outlook:** For the fiscal year 2012 management has firmed up the guidance and now expects the upper end of the current sales range of EUR 80-90m. It confirmed the EBITDA guidance of EUR 6-7m. The long-term targets were also unchanged. Thus, for 2015 ecotel plans sales of EUR 100m and EBITDA of EUR 10m.
- » **Allianz major contract:** Ecotel has received a new additional general contract from Allianz Deutschland to connect up to 10,000 agent locations with voice and data services. In this context, we believe an annual project volume of around EUR 3.5-4.5m is possible after a certain run-up phase.
- » **Financial model:** We have revised our ecotel financial model and have reflected various items. In addition to the operative update and the major contract, these include the share buybacks, the recent decision by the regulators on termination fees and some minor special issues in 2012 cashflow (e.g. CAPEX for data centre cooling device).

**Ecotel reported a solid Q3 12 and confirmed the operative guidance for 2012. In addition, it was able to report a promising new major contract with Allianz. We confirm the Buy rating and the Fair Value of EUR 7.**

Selected Companies	Price on 16 Nov 2012	PER 12e 13e	EV / EBITDA 12e 13e	EV / Sales 12e	Re- com.
ecotel communication	4.93 EUR	10.9 9.1	3.2 2.5	0.22	↑
QSC	2.06 EUR	14.9 11.0	3.8 3.4	0.60	→
United Internet	15.43 EUR	26.7 14.8	12.5 8.7	1.51	↑
Mox Telecom AG	4.19 EUR	– –	– –	–	–
freenet	13.90 EUR	10.7 7.8	8.5 6.3	0.73	↑
<b>Median for all peer group companies</b>		<b>14.9 11.0</b>	<b>8.5 6.3</b>	<b>0.73</b>	<b>–</b>

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

## EQUITIES

Flash  
20 Nov 2012

Buy (prev. Buy)

Closing price 16 Nov 2012

(in EUR): 4.93

Fair value: 7.00 (prev. 7.00)

Risk classification: 5

### Financial ratios 2012e:

Book value per share (in EUR):	5.99
Equity ratio (in %):	52.1
Net margin (in %):	2.5
ROE (in %):	10.0
Dividend yield (in %):	3.0
Free cash flow (EUR m):	3.0
Net debt (EUR m):	1.3

### Number of shares

(million units): 3.7

### Market cap

(in EUR m): 18.26

Free float (in %): 20.4

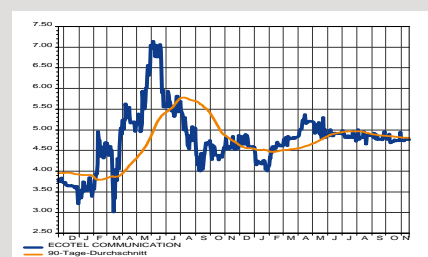
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Author: Karsten Oblinger, Analyst

**DZ BANK**  
Bank on Germany

## HEADLINE

**Subline**

**Crossline**

Fließtext

## 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
- » Large scale orders (B2B segment)
- » Dividend

### Opportunities and risks

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

<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	2011	2012e	2013e	2014e	2015e
<b>Sales</b>	<b>84.5</b>	<b>93.5</b>	<b>86.3</b>	<b>92.8</b>	<b>100.0</b>
Change in inventory/Own work	0.0	1.0	0.8	0.8	0.7
<b>Total output</b>	<b>84.5</b>	<b>94.5</b>	<b>87.1</b>	<b>93.6</b>	<b>100.7</b>
% against prev. year	-14%	12%	-8%	7%	8%
Cost of materials	-59.9	-68.9	-61.1	-65.5	-70.5
Personnel expenses	-9.7	-9.8	-9.8	-10.1	-10.5
Other operating income	1.6	0.0	0.0	0.0	0.0
Other operating expenses	-9.5	-9.1	-9.1	-9.3	-9.6
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>7.0</b>	<b>6.6</b>	<b>7.1</b>	<b>8.7</b>	<b>10.1</b>
For information: EBITDA adjusted	6.8	6.6	7.1	8.7	10.1
Depreciation	-3.9	-3.2	-3.3	-3.4	-3.5
thereof on goodwill	-0.4	0.0	0.0	0.0	0.0
<b>Operating profit (EBIT)</b>	<b>3.1</b>	<b>3.4</b>	<b>3.8</b>	<b>5.3</b>	<b>6.6</b>
For information: EBIT adjusted	3.5	3.4	3.8	5.3	6.6
% against prev. year	133%	-4%	14%	38%	25%
Interest paid / received	-0.4	-0.2	-0.1	0.0	0.0
<b>Profit before tax</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>	<b>5.2</b>	<b>6.5</b>
For information: EBT adjusted	3.1	3.2	3.7	5.2	6.5
% against prev. year	343%	3%	17%	41%	25%
Income taxes from continuing operations	-1.0	-0.8	-1.1	-1.6	-2.0
Tax rate	37%	25%	29%	30%	30%
<b>Net profit from continuing operations</b>	<b>1.7</b>	<b>2.4</b>	<b>2.6</b>	<b>3.7</b>	<b>4.6</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>2.4</b>	<b>2.6</b>	<b>3.7</b>	<b>4.6</b>
Profit or loss attributable to minority interest	-0.6	-0.7	-0.7	-0.8	-0.9
<b>Profit or loss attributable to shareholders</b>	<b>1.1</b>	<b>1.7</b>	<b>1.9</b>	<b>2.9</b>	<b>3.7</b>
thereof from continuing operations	1.1	1.7	1.9	2.9	3.7
thereof from discontinued operations	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.900	3.730	3.550	3.515	3.515
IFRS earnings per share, diluted	0.28	0.45	0.54	0.81	1.05
Adjusted earnings per share, diluted (contin.)	0.42	0.45	0.54	0.81	1.05

Fiscal year end December

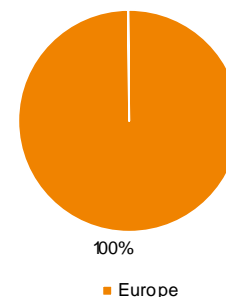
Source: ecotel communication and DZ BANK estimates

**RATIOS**

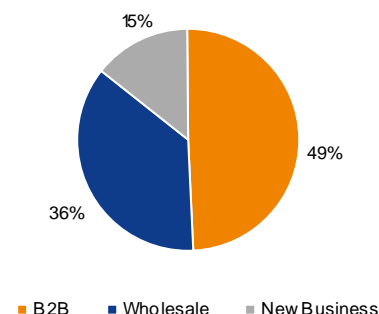
Euro	2011	2012e	2013e	2014e	2015e
<b>Profit and loss ratios</b>					
Total output (m)	84.5	94.5	87.1	93.6	100.7
EBITDA margin	8.0%	7.0%	8.2%	9.3%	10.0%
EBIT margin	4.1%	3.6%	4.4%	5.6%	6.5%
Net margin	2.6%	2.5%	3.0%	3.9%	4.6%
Investment ratio	0.0%	2.6%	2.2%	2.1%	2.0%
R&D as % of total output					
Net other operating costs as % of total output	9.3%	9.7%	10.4%	9.9%	9.5%
Net financial income as % of total output	-0.5%	-0.2%	-0.1%	-0.1%	0.0%
Interest cover	7.8	19.2	33.9	105.7	156.4
Average sales growth next five years	3.4%				
Average earnings growth next five years	21.3%				
<b>Profitability ratios</b>					
ROE	10.4%	10.0%	10.2%	12.4%	13.8%
ROCE	15.4%	15.1%	18.3%	27.0%	36.5%
<b>Productivity ratios</b>					
Sales per employee ('000)		506.55	467.02	487.27	499.75
EBIT per employee ('000)		18.03	20.52	27.45	32.70
<b>Balance sheet ratios</b>					
Equity ratio	47.1%	52.1%	56.3%	58.3%	59.9%
Long term debt and equity / Fixed assets	118.4%	122.7%	139.7%	166.4%	198.3%
Liquidity (quick ratio)	126.8%	132.1%	159.9%	188.2%	213.2%
Receivables as % of total output	15.9%	15.7%	15.7%	15.7%	15.7%
Investment (net of GW) / Depreciation		77.8%	57.6%	58.8%	57.1%
Working capital as % of total output	-0.2%	0.2%	0.1%	0.1%	0.2%
Net debt (m)	4.1	1.3	-2.2	-7.2	-12.4
Net debt complete (m)	2.9	0.1	-3.4	-8.4	-13.6
<b>Figures per share</b>					
Earnings per share, diluted	0.42	0.45	0.54	0.81	1.05
Diluted cash earnings per share	1.26	1.32	1.47	1.78	2.04
Dividend per common share	0.00	0.15	0.00	0.25	0.30
Cash per share, diluted	1.59	1.56	2.44	3.87	5.34
Net debt per share, diluted	1.05	0.36	-0.62	-2.05	-3.52
<b>Valuation ratios</b>					
Enterprise value / Sales	0.3	0.2	0.2	0.1	0.1
Enterprise value / EBITDA	3.5	3.2	2.5	1.5	0.9
Enterprise value / EBIT	6.8	6.3	4.6	2.5	1.4
EV/Sales to sales growth	0.61	0.07	0.06	0.04	0.03
PEG ratio - common shares		0.51			
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

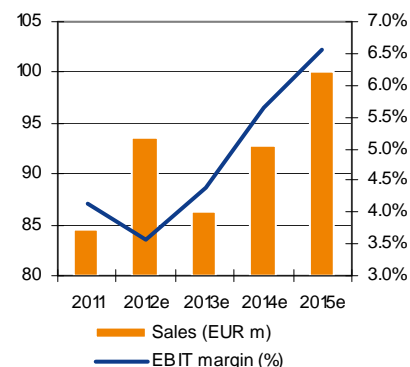
**SALES BY REGION 2011**



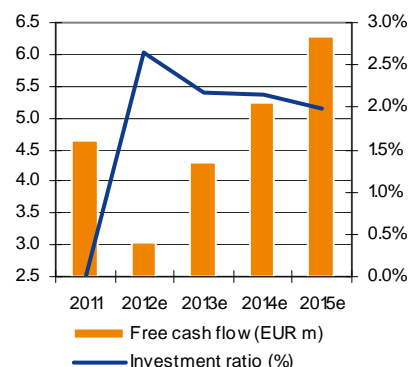
**SALES BY BUSINESS SEGMENT 2011**



**SALES AND MARGIN DEVELOPMENT**



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## BALANCE SHEET

IFRS - Euro m	2011	2012e	2013e	2014e	2015e
<b>ASSETS</b>					
<b>Non current assets</b>	<b>24.5</b>	<b>23.8</b>	<b>22.4</b>	<b>21.0</b>	<b>19.5</b>
Intangible assets	17.0	16.4	15.8	15.1	14.4
thereof goodwill	11.8	11.8	11.8	11.8	11.8
Tangible assets	5.1	5.0	4.2	3.5	2.7
Financial assets	1.6	1.6	1.6	1.6	1.6
Other long-term assets	0.8	0.8	0.8	0.8	0.8
<b>Current assets</b>	<b>20.9</b>	<b>21.9</b>	<b>23.6</b>	<b>29.6</b>	<b>35.9</b>
Inventories	0.1	0.1	0.1	0.1	0.1
Trade receivables	13.4	14.8	13.7	14.7	15.9
Financial assets	1.2	1.2	1.2	1.2	1.2
Other receivables and short-term assets	0.0	0.0	0.0	0.0	0.0
Liquid assets	6.2	5.8	8.6	13.6	18.8
Assets available for sale	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>45.4</b>	<b>45.7</b>	<b>46.0</b>	<b>50.6</b>	<b>55.4</b>
<b>LIABILITIES</b>					
<b>Shareholders' equity</b>	<b>21.4</b>	<b>23.8</b>	<b>25.9</b>	<b>29.5</b>	<b>33.2</b>
Share capital	3.8	3.8	3.8	3.8	3.8
Reserves	16.7	18.4	19.8	22.6	25.4
Other equity	0.0	0.0	0.0	0.0	0.0
Minority interest	0.9	1.6	2.3	3.1	4.0
Treasury stock	0.0	0.0	0.0	0.0	0.0
<b>Non current liabilities</b>	<b>7.6</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</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	7.6	5.4	5.4	5.4	5.4
Other payables	0.0	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>16.4</b>	<b>16.5</b>	<b>14.7</b>	<b>15.7</b>	<b>16.8</b>
Trade payables	11.6	12.8	11.8	12.7	13.7
Other provisions	0.6	0.3	0.3	0.3	0.3
Financial liabilities	2.7	1.7	1.0	1.0	1.0
Other liabilities	1.5	1.7	1.5	1.6	1.8
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity and liabilities</b>	<b>45.4</b>	<b>45.7</b>	<b>46.0</b>	<b>50.6</b>	<b>55.4</b>
Fiscal year end December					

Source: ecotel communication and DZ BANK estimates

**IMPRINT**

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Buy 68.3%, Hold 15.7%, Sell 16.0%

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**RATING HISTORY**

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

<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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