

TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

ecotel communication³⁾⁶⁾

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	92.9 (83.9)	0.35 (0.37)	1.15 (1.17)	14.1	4.3	0.00
2013e	93.5 (84.4)	0.60 (0.62)	1.31 (1.32)	8.2	3.8	0.25
2014e	93.8 (84.7)	0.80 (0.81)	1.45 (1.45)	6.2	3.4	0.30

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

Stabilisation trend continues in Q2

- » Ecotel has reported solid Q2 results and has confirmed guidance for 2012.
- » Ecotel has generated **sales of EUR 23.9m** in the second quarter of 2012 after EUR 19.8m in the previous year. The increase was the exclusive result of the positive development in the Reseller segment in which the company managed to increase revenues from EUR 6.1m to EUR 11.1m. The "Business Customer" and "New Business" segments posted declines.
- » **Gross income** increased in Q2 from EUR 5.8m in 2011 to **EUR 6.1m** in the current fiscal year. This growth is primarily attributable to "core business" with business customers. Gross income improved here from EUR 4.3m to EUR 4.5m.
- » On a group level, **EBITDA** contracted slightly from EUR 1.8m to **EUR 1.6m**, whilst EBIT rose by 50% to EUR 0.9m and net profit rose by 100% to EUR 0.4m.
- » Ecotel **management** has **confirmed targets for 2012** after a successful half-year and expects EBITDA to come in between EUR 6m and EUR 7m and sales of between EUR 80m and EUR 90m.
- » We have updated our model. Given the expansive reseller trend, we have increased our sales forecast though have left estimates for EBITDA and cash flow largely unchanged. We therefore confirm the share price target of EUR 7.0 and continue to recommend that investors buy Ecotel shares.

Selected Companies	Price on 16 Aug 2012	PER 12e	PER 13e	EV / EBITDA 12e	EV / 13e	EV / Sales 12e	Re- com.
ecotel communication	4.95 EUR	14.1	8.2	3.4	2.5	0.23	↑
QSC	2.05 EUR	14.1	10.7	3.7	3.3	0.60	↓
United Internet	15.51 EUR	20.7	14.9	11.8	8.9	1.63	↑
Mox Telecom AG	4.92 EUR	–	–	–	–	–	–
freenet	12.26 EUR	10.6	6.4	7.6	5.3	0.62	↑
Median for all peer group companies		14.1	10.7	7.6	5.3	0.62	–

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

EQUITIES

Flash
17 Aug 2012

Buy (prev. Buy)

Closing price 16 Aug 2012

(in EUR): 4.95

Fair value: 7.00 (prev. 7.00)

Risk classification: 5

Financial ratios 2012e:

Book value per share (in EUR):	5.61
Equity ratio (in %):	49.1
Net margin (in %):	2.2
ROE (in %):	8.8
Dividend yield (in %):	0.0
Free cash flow (EUR m):	3.9
Net debt (EUR m):	0.6

Number of shares

(million units): 3.9

Market cap

(in EUR m): 19.31

Free float (in %): 21.6

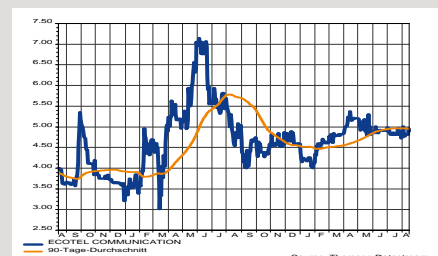
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Q3 Results in November 2012



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
- » Dividend

Opportunities and risks

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

PROFIT AND LOSS ACCOUNT

Euro m	2011	2012e	2013e	2014e	2015e	2016e
Sales	84.5	92.9	93.5	93.8	93.8	93.8
Change in inventory/Own work	0.0	0.0	0.0	0.0	0.0	0.0
Total output	84.5	92.9	93.5	93.8	93.8	93.8
% against prev. year	-14%	10%	1%	0%	0%	0%
Cost of materials	-59.9	-68.4	-68.7	-68.9	-68.9	-68.9
Personnel expenses	-9.7	-9.8	-9.4	-9.1	-9.1	-9.1
Other operating income	1.6	1.0	0.8	0.8	0.8	0.8
Other operating expenses	-9.5	-9.4	-9.0	-8.6	-8.6	-8.6
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	7.0	6.3	7.2	8.0	8.0	8.0
For information: EBITDA adjusted	6.8	6.3	7.2	8.0	8.0	8.0
Depreciation	-3.9	-3.1	-2.8	-2.5	-2.3	-2.1
thereof on goodwill	-0.4	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.1	3.2	4.4	5.4	5.7	5.9
For information: EBIT adjusted	3.5	3.2	4.4	5.4	5.7	5.9
% against prev. year	133%	-8%	37%	24%	4%	4%
Interest paid / received	-0.4	-0.3	-0.2	-0.1	-0.1	0.0
Profit before tax	2.7	3.0	4.2	5.3	5.6	5.8
For information: EBT adjusted	3.1	3.0	4.2	5.3	5.6	5.8
% against prev. year	343%	-5%	43%	26%	5%	4%
Income taxes from continuing operations	-1.0	-0.9	-1.3	-1.6	-1.7	-1.8
Tax rate	37%	30%	30%	30%	30%	30%
Net profit from continuing operations	1.7	2.1	3.0	3.7	3.9	4.1
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.7	2.1	3.0	3.7	3.9	4.1
Profit or loss attributable to minority interest	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6
Profit or loss attributable to shareholders	1.1	1.4	2.4	3.1	3.3	3.5
thereof from continuing operations	1.1	1.4	2.4	3.1	3.3	3.5
thereof from discontinued operations	0.0	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	3.900
IFRS earnings per share, diluted	0.28	0.35	0.60	0.80	0.85	0.90
Adjusted earnings per share, diluted (contin.)	0.42	0.35	0.60	0.80	0.85	0.90

Fiscal year end December

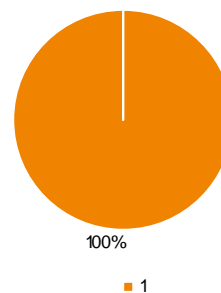
Source: ecotel communication and DZ BANK estimates

RATIOS

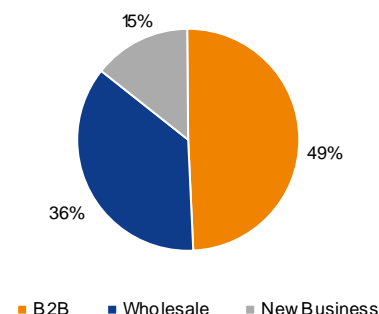
Euro	2011	2012e	2013e	2014e	2015e
Profit and loss ratios					
Total output (m)	84.5	92.9	93.5	93.8	93.8
EBITDA margin	8.0%	6.8%	7.6%	8.5%	8.5%
EBIT margin	4.1%	3.4%	4.7%	5.8%	6.0%
Net margin	2.6%	2.2%	3.2%	4.0%	4.2%
Investment ratio	0.0%	1.8%	1.8%	1.8%	1.8%
R&D as % of total output					
Net other operating costs as % of total output	9.3%	9.1%	8.8%	8.3%	8.3%
Net financial income as % of total output	-0.5%	-0.3%	-0.2%	-0.1%	-0.1%
Interest cover	7.8	12.7	25.7	48.1	86.8
Average sales growth next five years	2.1%				
Average earnings growth next five years	16.4%				
Profitability ratios					
ROE	10.4%	8.8%	11.2%	12.8%	12.3%
ROCE	15.4%	15.1%	21.7%	28.0%	30.1%
Productivity ratios					
Sales per employee ('000)					
EBIT per employee ('000)					
Balance sheet ratios					
Equity ratio	47.1%	49.1%	52.7%	55.1%	57.3%
Long term debt and equity / Fixed assets	118.4%	134.5%	154.3%	173.2%	191.5%
Liquidity (quick ratio)	126.8%	146.9%	173.4%	195.2%	215.9%
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	-7.0	-10.3
Net debt complete (m)	2.9	-0.6	-4.6	-8.2	-11.5
Figures per share					
Earnings per share, diluted	0.42	0.35	0.60	0.80	0.85
Diluted cash earnings per share	1.26	1.15	1.31	1.45	1.44
Dividend per common share	0.00	0.00	0.25	0.30	0.33
Cash per share, diluted	1.59	2.23	3.08	3.99	4.85
Net debt per share, diluted	1.05	0.16	-0.87	-1.79	-2.64
Valuation ratios					
Enterprise value / Sales	0.3	0.2	0.2	0.2	0.1
Enterprise value / EBITDA	3.5	3.4	2.5	1.9	1.6
Enterprise value / EBIT	6.8	6.7	4.1	2.8	2.2
EV/Sales to sales growth	-0.29	0.11	0.09	0.08	0.06
PEG ratio - common shares		0.86			
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

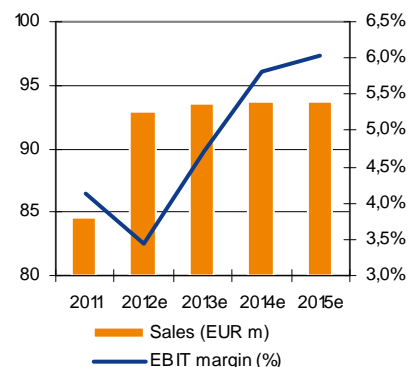
SALES BY REGION 2011



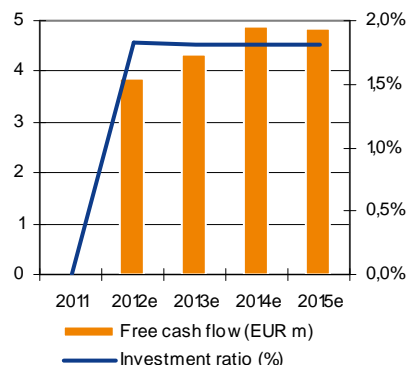
SALES BY BUSINESS SEGMENT 2011



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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SUMMARY

	2011	2012e	2013e	2014e	2015e	2016e
Profit and loss account (EUR m)						
Total output	84.5	92.9	93.5	93.8	93.8	93.8
Cost of materials	-59.9	-68.4	-68.7	-68.9	-68.9	-68.9
Personnel expenses	-9.7	-9.8	-9.4	-9.1	-9.1	-9.1
Other operating income/expenses	-7.9	-8.4	-8.2	-7.8	-7.8	-7.8
EBITDA	7.0	6.3	7.2	8.0	8.0	8.0
Operating profit (EBIT)	3.1	3.2	4.4	5.4	5.7	5.9
Interest paid / received	-0.4	-0.3	-0.2	-0.1	-0.1	0.0
Income taxes from continuing operations	-1.0	-0.9	-1.3	-1.6	-1.7	-1.8
Net profit from continuing operations	1.7	2.1	3.0	3.7	3.9	4.1
Net profit	1.7	2.1	3.0	3.7	3.9	4.1
Profit or loss attributable to shareholders	1.1	1.4	2.4	3.1	3.3	3.5
Profit and loss ratios						
EBITDA margin	8.0%	6.8%	7.6%	8.5%	8.5%	8.5%
EBIT margin	4.1%	3.4%	4.7%	5.8%	6.0%	6.3%
Tax rate	37.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net margin	2.6%	2.2%	3.2%	4.0%	4.2%	4.4%
Investment ratio	0.0%	1.8%	1.8%	1.8%	1.8%	1.8%
Average sales growth next five years	2.1%					
Average earnings growth next five years	16.4%					
Balance sheet ratios						
Equity ratio	47.1%	49.1%	52.7%	55.1%	57.3%	59.3%
Long term debt and equity / Fixed assets	118.4%	134.5%	154.3%	173.2%	191.5%	209.0%
Liquidity (quick ratio)	126.8%	146.9%	173.4%	195.2%	215.9%	235.6%
Receivables as % of total output	15.9%	15.9%	15.9%	15.9%	15.9%	15.9%
Investment (net of GW) / Depreciation		54.8%	61.7%	67.7%	74.3%	81.5%
Working capital as % of total output	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Cash flow statement (EUR m)						
Operating CF (cont.)	0.0	5.4	5.9	6.4	6.3	6.2
Operating CF (discont.)	0.0					
Investing CF (cont.)	0.0	-1.6	-1.5	-1.5	-1.4	-1.4
Investing CF (discont.)	0.0					
Free cash flow (cont.)	0.0	3.9	4.3	4.9	4.8	4.8
Free cash flow (discont.)	0.0					
Financing CF (cont.)	0.0	-1.4	-1.0	-1.3	-1.5	-1.6
Financing CF (discont.)	0.0					
Increase/decrease of cash	0.0	2.5	3.3	3.6	3.3	3.2
Profitability ratios						
ROE	10.4%	8.8%	11.2%	12.8%	12.3%	11.8%
ROCE	15.4%	15.1%	21.7%	28.0%	30.1%	31.8%
Figures per share (EUR)						
Earnings per share, diluted	0.42	0.35	0.60	0.80	0.85	0.90
Diluted cash earnings per share	1.26	1.15	1.31	1.45	1.44	1.43
Net debt per share, diluted	1.05	0.16	-0.87	-1.79	-2.64	-3.46
Valuation ratios						
Enterprise value / Sales	0.3	0.2	0.2	0.2	0.1	0.1
Enterprise value / EBITDA	3.5	3.4	2.5	1.9	1.6	1.2
Enterprise value / EBIT	6.8	6.7	4.1	2.8	2.2	1.7

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	2011	2012e	2013e	2014e	2015e	2016e
P/E common shares	11.5	14.1	8.2	6.2	5.8	5.5

Source: ecotel communication and DZ BANK estimates

IMPRINT

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- Hold: price changes between +5% and -5%
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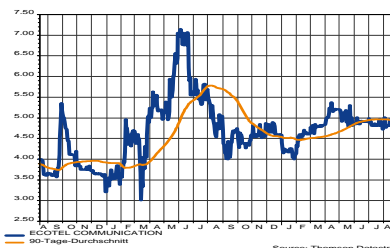
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RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

^{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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