

Telecommunication

A Research Publication by DZ BANK AG

ecotel communication⁵⁾⁷⁾⁸⁾¹⁰⁾¹¹⁾¹²⁾

Reuters: E4CG.DE Bloomberg: E4C GY

Year *	Sales		Adj. IFRS-Earnings per sh.		PER	Free cash flow per share		Free cash flow yield %	Dividend per share EUR
	EUR m	(EUR m)	EUR	(EUR)		EUR	(EUR)		
2015	106.3	(106.3)	0.46	(0.46)	18.3	1.52	(1.52)	18.0	0.23
2016e	117.0	(104.0)	0.25	(0.44)	37.1	0.66	(0.98)	7.3	0.12
2017e	113.5	(107.5)	0.44	(0.61)	20.6	0.87	(1.19)	9.5	0.22
2018e	117.0	(111.0)	0.62	(0.70)	14.7	1.10	(1.26)	12.0	0.30

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

Profitability currently below expectations but promising order situation

- Q3 2016:** Group sales amounted to EUR 31.3m (+28% yoy) in Q3 2016. However, the significant increase compared to the prior-year value is only based on an expansion of the low-margin reseller business. The gross profit increased from EUR 6.9m to EUR 7.1m. Nevertheless both the EBITDA (EUR 1.6m vs. EUR 1.8m) and the profit per share (EUR 0.04 vs. EUR 0.06) decreased year-on-year. This was due in particular to higher personnel costs. At the end of the quarter the net financial assets amounted to EUR 2.8m compared to a prior-year value of EUR 1.6m. The equity capital increased from EUR 21.5m to EUR 22.0m, which corresponds to an equity ratio of 47%.
- Outlook:** The management firmed up the outlook for the full year and now expects to reach the bottom end of the previous EBITDA corridor of EUR 7.0m – EUR 8.5m.
- DZ Opinion:** On the whole the operating development fell slightly short of our expectations. On the one hand this was due to various “smaller” one-time effects (e.g. severance payments) and on the other hand to future investments (e.g. process adjustments and system developments). Nevertheless, we consider the long-term prospects for ecotel to be promising and this is documented by three new newly-acquired large customer projects in 2016. Moreover, there are various additional opportunities in the area of NGN-Voice products and ethernet fiberglass marketing based on alternative network operators.

Q3 2016 fell slightly short of our expectations and the management firmed up the outlook for the full year and now only expects an EBITDA of EUR 7.0m (previously: in range of EUR 7.0m - EUR 8.5m). However, in our opinion the long-term prospects are still good and are documented by three newly-acquired large orders. We confirm our Buy recommendation and the FV of 12.00.

Selected Companies	Price on 10 Nov 2016	PER		EV / EBITDA		EV / Sales 16e	Re-com.
		16e	17e	16e	17e		
ecotel communication	9.10 EUR	37.1	20.6	4.6	3.9	0.28	↑
Deutsche Telekom	14.29 EUR	13.2	16.4	6.2	6.4	1.90	↑
United Internet	38.85 EUR	47.5	16.0	11.6	10.0	2.46	↑
QSC	1.75 EUR	–	n/a	8.1	7.7	0.80	–
Telefónica Deutschland	3.44 EUR	–	–	5.4	6.3	1.50	→
Median for all peer group companies		30.4	16.2	7.2	7.1	1.70	–

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

EQUITIES

Flash

Completed: 11 Nov 2016, 13:53

Buy (prev. Buy)

Closing price 10 Nov 2016 (in EUR): 9.10
Fair value: 12.00 (prev. 12.00)

Financial ratios 2016e:

Book value per share (in EUR):	5.54
Equity ratio (in %):	46.9
Net margin (in %):	1.5
ROE (in %):	7.8
Dividend yield (in %):	1.3
Free cash flow (EUR m):	2.3
Net debt (EUR m):	-3.2

Number of shares

(million units): 3.5

Market cap

(in EUR m): 32.23

Free float (in %):

26.1

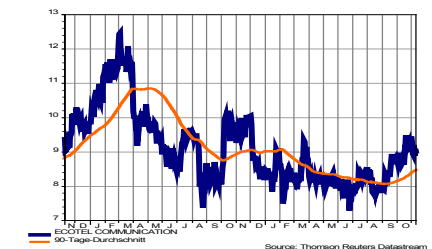
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Next Newsflow:

03/2017: Annual Report 2016



Author: Karsten Oblinger, Analyst

AT A GLANCE

Company profile

ecotel communications is a telecoms 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	

PROFIT AND LOSS ACCOUNT

Euro m	2015	2016e	2017e	2018e
Sales	106.3	117.0	113.5	117.0
Change in inventory/Own work	2.3	0.8	0.8	0.8
Total output	108.6	117.8	114.3	117.8
% against prev. year	4%	8%	-3%	3%
Cost of materials	-78.6	-87.9	-82.6	-84.4
Personnel expenses	-11.9	-12.8	-13.0	-13.2
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.3	-10.1	-10.7	-11.2
Extraordinary income/expenses	0.0	0.0	0.0	0.0
EBITDA	7.9	7.0	8.0	9.0
For information: EBITDA adjusted	7.6	7.0	8.0	9.0
Depreciation	-4.2	-4.2	-4.1	-4.1
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.6	2.8	3.9	4.9
For information: EBIT adjusted	3.6	2.8	3.9	4.9
% against prev. year	22%	-24%	40%	27%
Interest paid / received	-0.1	-0.1	0.0	0.1
Profit before tax	3.5	2.7	3.9	5.0
For information: EBT adjusted	3.5	2.7	3.9	5.0
% against prev. year	26%	-23%	43%	28%
Income taxes from continuing operations	-1.1	-0.9	-1.3	-1.7
Tax rate	31%	34%	34%	34%
Net profit from continuing operations	2.4	1.8	2.5	3.3
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	2.4	1.8	2.5	3.3
Profit or loss attributable to minority interest	-0.8	-0.9	-1.0	-1.1
Profit or loss attributable to shareholders	1.6	0.9	1.5	2.2
thereof from continuing operations	1.6	0.9	1.5	2.2
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	0.25	0.44	0.62
Adjusted earnings per share, diluted (contin.)	0.46	0.25	0.44	0.62

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

RATIOS

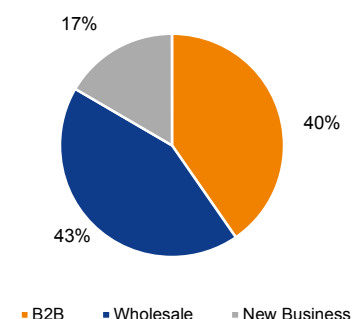
Euro	2015	2016e	2017e	2018e
Profit and loss ratios				
Total output (m)	108.6	117.8	114.3	117.8
EBITDA margin	7.0%	5.9%	7.0%	7.6%
EBIT margin	3.4%	2.3%	3.4%	4.2%
Net margin	2.2%	1.5%	2.2%	2.8%
Investment ratio	3.0%	2.9%	3.2%	3.1%
R&D as % of total output				
Net other operating costs as % of total output	9.5%	8.6%	9.4%	9.5%
Net financial income as % of total output	-0.1%	0.0%	0.0%	0.1%
Interest cover	28.0	48.8		
Average sales growth next five years	5.1%			
Average earnings growth next five years				
Profitability ratios				
ROE	11.0%	7.8%	10.1%	11.8%
ROCE	19.0%	14.7%	21.0%	27.3%
Productivity ratios				
Sales per employee ('000)	506.38	555.66	539.15	555.66
EBIT per employee ('000)	16.97	13.02	18.25	23.11
Balance sheet ratios				
Equity ratio	43.8%	46.9%	49.8%	51.6%
Long term debt and equity / Fixed assets	121.9%	117.2%	125.5%	141.0%
Liquidity (quick ratio)	119.7%	113.6%	120.7%	132.2%
Receivables as % of total output	16.3%	17.1%	17.1%	17.1%
Investment (net of GW) / Depreciation		80.2%	90.2%	90.2%
Working capital as % of total output	-1.9%	-1.4%	-1.4%	-1.4%
Net debt (m)	-2.5	-3.2	-5.5	-8.5
Net debt complete (m)	-3.9	-5.3	-7.9	-10.9
Figures per share				
Earnings per share, diluted	0.46	0.25	0.44	0.62
Free cash flow per share, diluted	1.52	0.66	0.87	1.10
Dividend per common share	0.23	0.12	0.22	0.30
Cash per share, diluted	2.19	1.68	2.10	2.93
Net debt per share, diluted	-0.70	-0.90	-1.54	-2.40
Valuation ratios				
Enterprise value / Sales	0.3	0.3	0.3	0.2
Enterprise value / EBITDA	3.9	4.6	3.9	3.2
Enterprise value / EBIT	8.2	11.7	8.0	6.0
EV/Sales to sales growth	0.05	0.05	0.05	0.05
PEG ratio - common shares				
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

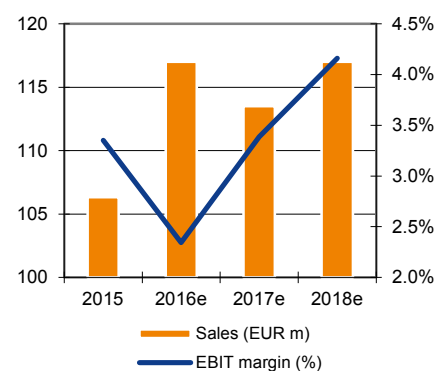
SALES BY REGION 2015



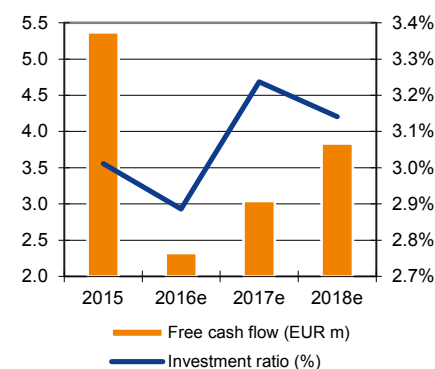
SALES BY BUSINESS SEGMENT 2015



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



BALANCE SHEET

IFRS - Euro m	2015	2016e	2017e	2018e
ASSETS				
Non current assets	22.0	21.2	20.7	20.2
Intangible assets	12.7	12.2	11.9	11.5
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	8.5	8.2	8.1	8.0
Financial assets	0.8	0.8	0.7	0.6
Other long-term assets	0.0	0.0	0.0	0.0
Current assets	28.2	28.9	29.8	33.3
Inventories	0.0	0.0	0.0	0.0
Trade receivables	17.7	20.1	19.5	20.1
Financial assets	1.7	1.7	1.7	1.7
Other receivables and short-term assets	1.0	1.1	1.1	1.1
Liquid assets	7.7	5.9	7.4	10.4
Assets available for sale	0.0	0.0	0.0	0.0
Total assets	50.2	50.1	50.4	53.5
LIABILITIES				
Shareholders' equity	22.0	23.0	25.1	27.6
Share capital	3.5	3.5	3.5	3.5
Reserves	16.1	16.1	17.3	18.7
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.4	3.4	4.4	5.5
Treasury stock	0.0	0.0	0.0	0.0
Non current liabilities	4.8	1.8	0.8	0.8
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
Current liabilities	23.4	25.2	24.5	25.0
Trade payables	19.4	21.4	20.8	21.4
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.3	2.1	2.0	1.9
Other liabilities	1.6	1.7	1.7	1.7
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	50.2	50.1	50.4	53.5
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

SUMMARY

Euro m	2015	2016e	2017e	2018e
Profit and loss account				
Total output	108.6	117.8	114.3	117.8
Cost of materials	-78.6	-87.9	-82.6	-84.4
Personnel expenses	-11.9	-12.8	-13.0	-13.2
Other operating income/expenses	-10.3	-10.1	-10.7	-11.2
EBITDA	7.9	7.0	8.0	9.0
Depreciation	-4.2	-4.2	-4.1	-4.1
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.6	2.8	3.9	4.9
Interest paid / received	-0.1	-0.1	0.0	0.1
Profit before tax	3.5	2.7	3.9	5.0
Income taxes from continuing operations	-1.1	-0.9	-1.3	-1.7
Net profit from continuing operations	2.4	1.8	2.5	3.3
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	2.4	1.8	2.5	3.3
Profit or loss attributable to minority interest	-0.8	-0.9	-1.0	-1.1
Profit or loss attributable to shareholders	1.6	0.9	1.5	2.2
Balance sheet				
Non current assets	22.0	21.2	20.7	20.2
thereof goodwill	8.9	8.9	8.9	8.9
Current assets	28.2	28.9	29.8	33.3
thereof liquid assets	7.7	5.9	7.4	10.4
Shareholders' equity	22.0	23.0	25.1	27.6
Non current liabilities	4.8	1.8	0.8	0.8
Current liabilities	23.4	25.2	24.5	25.0
Shareholders' equity and liabilities	50.2	50.1	50.4	53.5
Cash flow statement				
Operating CF (cont.)	8.5	5.7	6.6	7.4
Operating CF (discont.)	0.0			
Investing CF (cont.)	-3.2	-3.4	-3.6	-3.5
Investing CF (discont.)	0.0			
Free cash flow (cont.)	5.4	2.3	3.0	3.8
Free cash flow (discont.)	0.0			
Financing CF (cont.)	-2.6	-4.1	-1.6	-0.9
Financing CF (discont.)	0.0			
Increase/decrease of cash	2.8	-1.8	1.5	2.9
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

I. IMPRINT

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Technical analysis one week

Fixed income instruments:

Issuers six months

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Analyses according to the value approach: one month

Asset allocation analyses (DZ BANK Portfolio): one month

Euro Stoxx sector strategy (DZ BANK Sector Favorites): one month

Dividends (DZ BANK Dividend Aristocrats): three months

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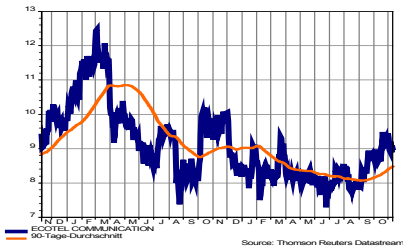
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