

TELECOMMUNICATIONS

A Research Publication by DZ BANK AG

ecotel communication³⁾⁶⁾

Reuters: E4CG.DE

Bloomberg: E4C GY

Year *	Sales		Adj. IFRS- Earnings per sh.		PER	Free cash flow per share		Free cash flow yield %	Dividend flow yield per share EUR
	EUR m	(EUR m)	EUR	(EUR)		EUR	(EUR)		
2014	101.5	(101.5)	0.33	(0.33)	30.3	0.43	(0.43)	4.4	0.16
2015e	99.0	(99.8)	0.49	(0.49)	19.7	1.21	(1.11)	12.4	0.25
2016e	105.0	(105.0)	0.64	(0.65)	15.3	1.23	(1.23)	12.6	0.32
2017e	107.5	(107.5)	0.78	(0.79)	12.5	1.36	(1.35)	14.0	0.39

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

Q3 2015 turns out to have been in line with our expectations

» **Q3 2015:** the 3rd quarter of 2015 has proved to be in accordance with our expectations:

Sales: EUR 24.4m / DZe: EUR 24.5m

EBITDA: EUR 1.8m / DZe: EUR 1.8m

EPS: EUR 0.06 / DZe: EUR 0.08

Free cash flow: EUR 1.5m / DZe: EUR 1.4n

» **Outlook:** ecotel's Management has confirmed its 2015 annual guidance and is continuing to anticipate sales of EUR 90-100m and EBITDA of EUR 7.5-8.5m.

» **B2B:** On 1.9.2015, ecotel received a major order from HOCHTIEF Solutions AG, a subsidiary of the international construction group HOCHTIEF for the secure networking of corporate locations and construction sites in the form of a MPLS-based virtual private network (VPN). The sales and earnings contributions resulting from this year's large-scale orders (CURANUM & HOCHTIEF) ought to become manifest from FY 2016 onwards and reinforce growth in the B2B segment which, at the moment, is primarily being underpinned by a major order from Allianz. In future, the company will also be pursuing a strategy involving the opening-up of new markets in the Cloud, Security and IP-Centrex fields.

» **New business:** The pre-eminent growth driver continues to be the B2C sub-segment easybell (DSL reselling), which is becoming steadily more important in the group-wide context. In parallel to this, the low profitability of newmediasolutions has been improved.

Q3 2015 was in line with our expectations, and Management has confirmed its 2015 guidance. We continue to have a "Buy" recommendation on the ecotel share and have made a slight upward adjustment to fair value per share (EUR 12.5. up from EUR 12.0).

Selected Companies	Price on		PER		EV / EBITDA		EV / Sales 15e	Re- com.
	16 Nov 2015		15e	16e	15e	16e		
ecotel communication	9.75	EUR	19.7	15.3	4.3	3.8	0.36	↑
Deutsche Telekom	16.62	EUR	27.3	22.3	7.8	7.5	2.08	↑
United Internet	46.68	EUR	26.5	21.2	14.6	12.3	3.01	↑
QSC	1.58	EUR	–	n/a	6.8	6.3	0.71	–
Telefónica Deutschland	5.34	EUR	–	–	9.9	9.1	2.15	↓
Median for all peer group companies			26.9	21.8	8.9	8.3	2.12	–

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

EQUITIES

Flash
17 Nov 2015

Buy (prev. Buy)

Closing price 16 Nov 2015

(in EUR): 9.75

Fair value: 12.50 (prev. 12.00)

Financial ratios 2015e:

Book value per share (in EUR):	5.63
Equity ratio (in %):	54.6
Net margin (in %):	2.6
ROE (in %):	11.4
Dividend yield (in %):	2.5
Free cash flow (EUR m):	4.2
Net debt (EUR m):	-0.2

Number of shares

(million units): 3.5

Market cap

(in EUR m): 34.12

Free float (in %): 26.0

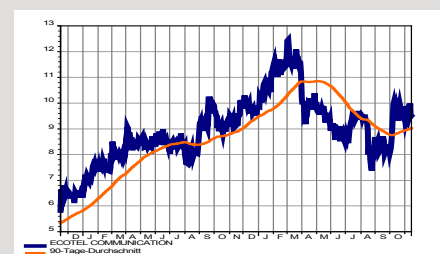
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March 2016: 2015 Annual Report



Author: Karsten Oblinger, 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

We expect rising earnings in the coming years. Key growth drivers are large projects being implemented by 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 by ejjasybell

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 by 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	2014	2015e	2016e	2017e
Sales	101.5	99.0	105.0	107.5
Change in inventory/Own work	2.9	2.3	0.8	0.8
Total output	104.4	101.3	105.8	108.3
% against prev. year	14%	-3%	4%	2%
Cost of materials	-74.9	-70.8	-74.0	-75.3
Personnel expenses	-11.9	-12.0	-12.1	-12.3
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.4	-10.0	-10.7	-11.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0
EBITDA	7.3	8.5	9.0	9.7
For information: EBITDA adjusted	7.0	8.5	9.0	9.7
Depreciation	-4.3	-4.3	-4.2	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.0	4.2	4.8	5.5
For information: EBIT adjusted	3.0	4.2	4.8	5.5
% against prev. year	-9%	41%	15%	14%
Interest paid / received	-0.2	-0.3	-0.2	-0.1
Profit before tax	2.8	3.9	4.6	5.4
For information: EBT adjusted	2.8	3.9	4.6	5.4
% against prev. year	-10%	40%	19%	17%
Income taxes from continuing operations	-1.0	-1.3	-1.6	-1.8
Tax rate	37%	34%	34%	34%
Net profit from continuing operations	1.8	2.6	3.1	3.6
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	1.8	2.6	3.1	3.6
Profit or loss attributable to minority interest	-0.6	-0.9	-0.9	-0.9
Profit or loss attributable to shareholders	1.2	1.7	2.2	2.7
thereof from continuing operations	1.2	1.7	2.2	2.7
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	0.33	0.49	0.64	0.78
Adjusted earnings per share, diluted (contin.)	0.33	0.49	0.64	0.78

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

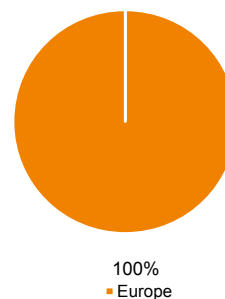
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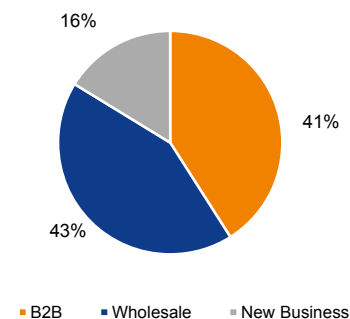
Euro	2014	2015e	2016e	2017e
Profit and loss ratios				
Total output (m)	104.4	101.3	105.8	108.3
EBITDA margin	6.7%	8.4%	8.5%	9.0%
EBIT margin	2.9%	4.1%	4.5%	5.1%
Net margin	1.7%	2.6%	2.9%	3.3%
Investment ratio	3.5%	3.0%	2.9%	3.0%
R&D as % of total output				
Net other operating costs as % of total output	10.0%	9.9%	10.1%	10.2%
Net financial income as % of total output	-0.2%	-0.3%	-0.2%	-0.1%
Interest cover	9.8	13.6	28.5	73.1
Average sales growth next five years	3.9%			
Average earnings growth next five years				
Profitability ratios				
ROE	8.5%	11.4%	12.4%	13.2%
ROCE	12.9%	19.3%	23.3%	27.9%
Productivity ratios				
Sales per employee ('000)	435.11	422.08	440.83	451.25
EBIT per employee ('000)	12.42	17.50	20.05	22.93
Balance sheet ratios				
Equity ratio	47.1%	54.6%	55.9%	57.8%
Long term debt and equity / Fixed assets	117.0%	114.9%	131.8%	151.3%
Liquidity (quick ratio)	118.0%	114.3%	132.6%	151.7%
Receivables as % of total output	12.7%	12.8%	13.0%	13.0%
Investment (net of GW) / Depreciation		69.8%	73.8%	76.2%
Working capital as % of total output	0.8%	0.8%	0.8%	0.8%
Net debt (m)	3.1	-0.2	-3.5	-7.0
Net debt complete (m)	2.5	-0.8	-4.1	-7.5
Figures per share				
Earnings per share, diluted	0.33	0.49	0.64	0.78
Free cash flow per share, diluted	0.43	1.21	1.23	1.36
Dividend per common share	0.16	0.25	0.32	0.39
Cash per share, diluted	1.41	1.24	2.17	3.16
Net debt per share, diluted	0.87	-0.07	-1.01	-2.00
Valuation ratios				
Enterprise value / Sales	0.4	0.4	0.3	0.3
Enterprise value / EBITDA	5.7	4.3	3.8	3.3
Enterprise value / EBIT	13.5	8.8	7.2	5.8
EV/Sales to sales growth	0.10	0.09	0.08	0.08
PEG ratio - common shares	1.81			
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

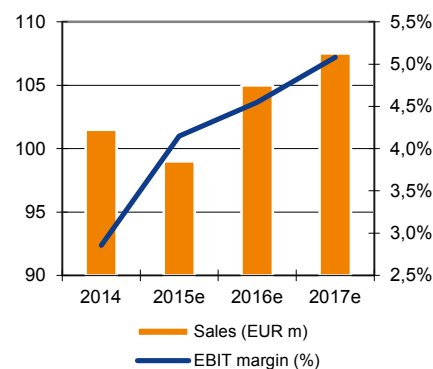
SALES BY REGION 2014



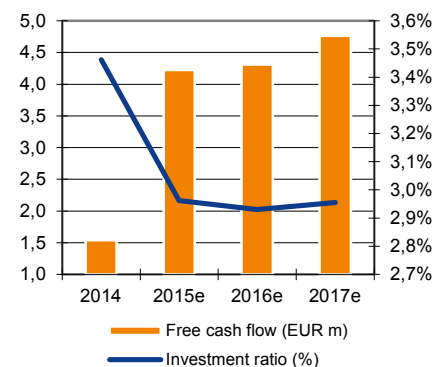
SALES BY BUSINESS SEGMENT 2014



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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Buy 75.7%, Hold 10.4%, Sell 13.9%

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Buy: greater than 5% increase in share price

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

Sell: more than 5% decrease in share price

7.a) **Note:** - Any fair values / price targets shown for companies discussed in this report may not be achieved due to multiple risk factors, including, without limitation, market

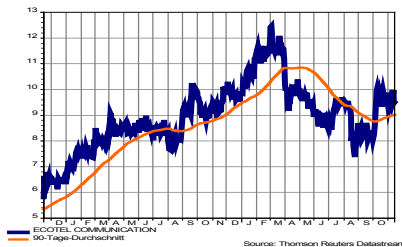
volatility, sector volatility, corporate actions, the state of the economy, the failure to achieve earnings and/or revenue projections, the unavailability of complete and accurate information and/or a subsequent occurrence that affects the underlying assumptions made by DZ BANK or by other sources relied upon in the report.

b) DZ BANK may also have published other research about the company during the period covered that did not contain a fair value / price target but that discussed valuation matters. The fair values / price targets shown should be considered in the context of all prior published research as well as developments relating to the company, its industry and financial markets.

c) DZ BANK is not obliged to up-date the research report. Investors must keep themselves informed about on the current course of business and any changes in the current course of business of the issuer.

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e) If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer and shall in no way affect the legality, validity or enforceability of the remaining terms.



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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