

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
2013e	91.4	(88.7)	0.42	(0.46)	1.36	(1.40)	15.1	4.7	0.00
2014e	92.5	(94.5)	0.49	(0.60)	1.59	(1.70)	16.1	5.0	0.00
2015e	95.6	(100.0)	0.70	(0.90)	1.91	(2.11)	11.3	4.2	0.00

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

Preliminary result for 2013 in line with the management outlook

- » **2013 financial year:** The group's key data for 2013 are at the upper end of the management outlook. Sales: EUR 91m (forecast: EUR 80-90m); EBITDA: EUR 6.7m (forecast: EUR 6-7m); EPS: EUR 0.42 (no forecast). Operating cash flow was EUR 7m. Due to advance payments for a significant major contract, according to plan FCF was negative at EUR -0.7m.
- » **Interpretation:** The performance of the individual segments in 2013 was mixed, as anticipated. A positive point worth highlighting in our view is the encouraging performance in the largest segment, "Business Clients", which is now generating a gross margin above of 50% and is growing again for the first time since 2007. This growth is mainly based on the above large scale contract with a renowned German insurance group, which also promises further growth for the subsequent years.
- » **Outlook:** The management has not so far formulated a concrete outlook for 2014, and instead merely anticipates continuation of the profitable growth path. Upon presentation of the Annual Report on 31.3 concrete targets will be given.
- » **Model:** We have priced the key data for 2013 into the model and have reduced our forecast for 2014 and the subsequent years. In the B2B segment we now expect (as in 2013) about EUR 2m of sales growth per annum for the 14e-16e estimation period.

The preliminary result for 2013 was in line with the management outlook and our forecast. A concrete outlook for 2014 follows at the end of March upon publication of the Annual Report. We confirm the Buy recommendation and the fair value of EUR 9.

Selected Companies	Price on 3 Mar 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
ecotel communication	7.94 EUR	16.1	11.3	3.8	2.7	0.31	↑
QSC	3.82 EUR	25.5	16.0	6.8	4.9	1.10	-
United Internet	32.31 EUR	24.0	19.2	13.3	10.7	2.14	↑
Mox Telecom AG	4.75 EUR	-	-	-	-	-	-
freenet	23.67 EUR	12.5	11.5	9.6	9.1	1.06	↑
Median for all peer group companies		24.0	16.0	9.6	9.1	1.10	-

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

EQUITIES

Flash
4 Mar 2014

Buy (prev. Buy)

Closing price 3 Mar 2014

(in EUR): 7.94

Fair value: 9.00 (prev. 9.00)

Financial ratios 2014e:

Book value per share (in EUR):	5.95
Equity ratio (in %):	51.6
Net margin (in %):	2.5
ROE (in %):	10.0
Dividend yield (in %):	0.0
Free cash flow (EUR m):	3.4
Net debt (EUR m):	-2.1

Number of shares

(million units): 3.5

Market cap

(in EUR m): 27.79

Free float (in %):

22.5

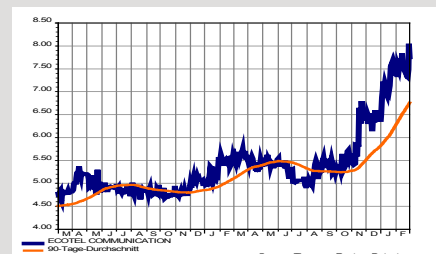
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31.3.2014: 2013 Annual Report



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

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
Better than expected business development	Pre-selection exposure
Consolidation	Rising competition
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	2013e	2014e	2015e	2016e
Sales	94.3	91.4	92.5	95.6	100.0
Change in inventory/Own work	0.1	0.5	0.9	0.7	0.8
Total output	94.4	91.9	93.4	96.3	100.8
% against prev. year	12%	-3%	2%	3%	5%
Cost of materials	-69.2	-65.1	-65.1	-66.1	-68.7
Personnel expenses	-10.0	-10.3	-10.7	-10.8	-11.3
Other operating income	1.0	0.1	0.0	0.0	0.0
Other operating expenses	-9.3	-9.8	-10.1	-10.4	-10.8
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	6.8	6.7	7.5	9.0	10.0
For information: EBITDA adjusted	3.8	6.7	7.5	9.0	10.0
Depreciation	-6.5	-3.4	-3.9	-4.1	-3.7
thereof on goodwill	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	0.4	3.3	3.7	4.9	6.2
For information: EBIT adjusted	0.4	3.3	3.7	4.9	6.2
% against prev. year	-89%	745%	10%	34%	27%
Interest paid / received	-1.3	-0.2	-0.2	-0.2	-0.2
Profit before tax	-0.9	3.1	3.4	4.7	6.0
For information: EBT adjusted	-0.9	3.1	3.4	4.7	6.0
% against prev. year	-128%		11%	37%	28%
Income taxes from continuing operations	-0.8	-1.0	-1.1	-1.5	-1.9
Tax rate	-87%	31%	31%	31%	31%
Net profit from continuing operations	-1.6	2.1	2.4	3.2	4.2
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0
Net profit	-1.6	2.1	2.4	3.2	4.2
Profit or loss attributable to minority interest	-0.9	-0.6	-0.7	-0.9	-1.1
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	0.49	0.70	0.90
Adjusted earnings per share, diluted (contin.)	-0.70	0.42	0.49	0.70	0.90

Fiscal year end December

Source: ecotel communication and DZ BANK estimates

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RATIOS

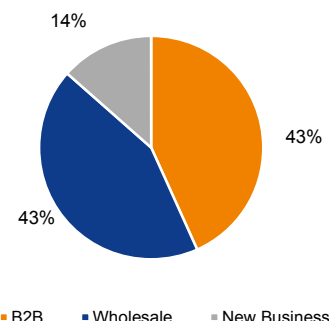
Euro	2012	2013e	2014e	2015e	2016e
Profit and loss ratios					
Total output (m)	94.4	91.9	93.4	96.3	100.8
EBITDA margin	4.0%	7.3%	8.0%	9.3%	9.9%
EBIT margin	0.4%	3.6%	3.9%	5.1%	6.2%
Net margin	-1.7%	2.3%	2.5%	3.4%	4.1%
Investment ratio	3.0%	7.4%	2.8%	2.7%	2.6%
R&D as % of total output					
Net other operating costs as % of total output	8.8%	10.6%	10.8%	10.8%	10.7%
Net financial income as % of total output	-1.4%	-0.3%	-0.2%	-0.2%	-0.2%
Interest cover	0.3	13.9	17.1	23.5	30.7
Average sales growth next five years	3.6%				
Average earnings growth next five years					
Profitability ratios					
ROE	-8.5%	9.9%	10.0%	12.0%	13.3%
ROCE	2.2%	15.9%	18.0%	26.1%	35.5%
Productivity ratios					
Sales per employee ('000)	499.54	481.05	475.32	472.06	969.23
EBIT per employee ('000)	2.09	17.45	18.58	24.02	59.86
Balance sheet ratios					
Equity ratio	45.3%	49.1%	51.6%	54.2%	57.0%
Long term debt and equity / Fixed assets	117.5%	109.9%	125.9%	149.3%	177.6%
Liquidity (quick ratio)	119.7%	113.5%	134.8%	161.0%	188.0%
Receivables as % of total output	13.3%	12.9%	13.6%	13.6%	13.6%
Investment (net of GW) / Depreciation		200.2%	67.7%	63.6%	69.7%
Working capital as % of total output	-2.1%	-2.4%	-1.7%	-1.7%	-1.7%
Net debt (m)	-0.2	0.9	-2.1	-6.9	-12.3
Net debt complete (m)	-1.5	-0.4	-3.4	-8.2	-13.6
Figures per share					
Earnings per share, diluted	-0.70	0.42	0.49	0.70	0.90
Diluted cash earnings per share	0.21	1.36	1.59	1.91	2.00
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	2.04	1.60	2.50	3.98	5.55
Net debt per share, diluted	-0.06	0.24	-0.60	-2.03	-3.61
Valuation ratios					
Enterprise value / Sales	0.2	0.3	0.3	0.2	0.2
Enterprise value / EBITDA	5.4	3.9	3.8	2.7	2.0
Enterprise value / EBIT	51.7	7.8	7.9	4.9	3.2
EV/Sales to sales growth	0.06	0.08	0.09	0.07	0.05
PEG ratio - common shares					
Fiscal year end December					

Source: ecotel communication, DZ BANK estimates

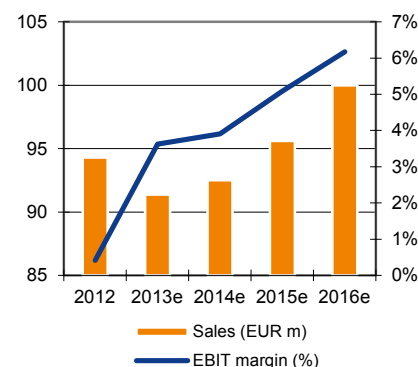
SALES BY REGION 2012



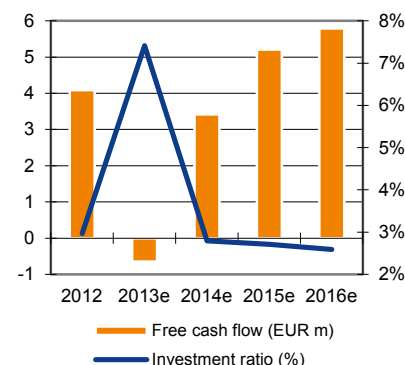
SALES BY BUSINESS SEGMENT 2012



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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Buy 71.7%, Hold 4.5%, Sell 23.8%

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Buy 19.5%, Hold 53.8%, Sell 7.4%

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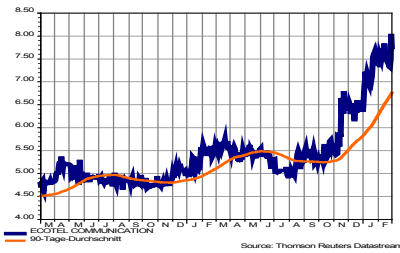
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RATING HISTORY

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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