

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
2013	91.4 (91.4)	0.42 (0.42)	1.37 (1.37)	15.0	4.6	0.00
2014e	96.0 (95.0)	0.40 (0.48)	1.53 (1.56)	21.5	5.6	0.00
2015e	97.9 (97.9)	0.69 (0.71)	1.90 (1.92)	12.3	4.5	0.00
2016e	100.0 (-)	0.89 (-)	2.12 (-)	9.6	4.0	0.00

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

Unspectacular start to the year with confirmation of guidance for the full year

- » **Q1 2014:** The quarterly sales of EUR 26.2m (+22%) were considerably higher than the prior-year value and surpassed our expectations. However, this sales increase came essentially from the low-margin wholesale business, so that our estimates for the gross profit (EUR 6.8m) and EBITDA (EUR 1.7m) were nevertheless almost met exactly. Write-offs, taxes and minority interests were marginally above our respective forecasts, which led to a net profit of EUR 0.25m just slightly below our forecast of EUR 0.3m.
- » **DZ opinion:** On the whole Q1 2014 was quite unspectacular for the group. The three business areas did not deliver any surprises with the respective gross earnings. In our opinion the following three aspects should be noted in the coming quarters. 1) operating development of the "B2B" segment with particular focus on the progress with major client Allianz 2) business and customer development in the "New Business" segment with focus on the subsidiary company Easybell 3) possible agreement in an ongoing legal dispute with Deutsche Telekom, which shows an asymmetrical opportunity /risk profile for ecotel as the plaintiff. (Our model does not currently include any financial effects in this connection.)
- » **Outlook:** The management confirmed the outlook for FY 2014 and expects sales of EUR 85-95m and an EBITDA of EUR 6.5-7.5m.

Q1 2014 turned out largely in line with our forecasts and the management is leaving the outlook for the full year unchanged. We confirm our Buy recommendation and the fair value of EUR 11.00.

Selected Companies	Price on 14 May 2014	PER		EV / EBITDA		EV / Sales 14e	Re- com.
		14e	15e	14e	15e		
ecotel communication	8.52 EUR	21.5	12.3	4.7	3.3	0.34	↑
QSC	3.36 EUR	46.3	22.4	6.8	5.1	0.99	–
United Internet	31.79 EUR	21.9	18.8	12.5	10.8	2.22	↑
Mox Telecom AG	5.80 EUR	–	–	–	–	–	–
freenet	22.28 EUR	12.2	11.5	9.2	8.9	1.06	↑
Median for all peer group companies		21.9	18.8	9.2	8.9	1.06	–

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

EQUITIES

Flash
15 May 2014

Buy (prev. Buy)

Closing price 14 May 2014

(in EUR): 8.52
Fair value: 11.00 (prev. 11.00)

Financial ratios 2014e:

Book value per share (in EUR):	5.75
Equity ratio (in %):	48.7
Net margin (in %):	2.1
ROE (in %):	8.7
Dividend yield (in %):	0.0
Free cash flow (EUR m):	2.8
Net debt (EUR m):	0.6

Number of shares

(million units): 3.5

Market cap

(in EUR m): 29.82

Free float (in %):

22.5

SIN: 585434

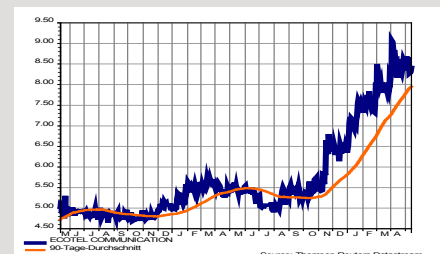
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Datastream: D:E4CX

Next Newsflow:

25.07.2014: AGM

14.08.2014: Q2 2014



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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
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	

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	2013	2014e	2015e	2016e
Sales	91.4	96.0	97.9	100.0
Change in inventory/Own work	0.6	0.5	0.7	0.5
Total output	92.0	96.5	98.6	100.5
% against prev. year	-3%	5%	2%	2%
Cost of materials	-64.4	-68.3	-68.3	-68.7
Personnel expenses	-10.6	-11.2	-11.3	-11.4
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-10.3	-9.9	-10.2	-10.5
Extraordinary income/expenses	0.0	0.0	0.0	0.0
EBITDA	6.7	7.1	8.8	9.9
For information: EBITDA adjusted	6.7	7.1	8.8	9.9
Depreciation	-3.4	-4.0	-4.1	-4.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	3.3	3.1	4.7	5.7
For information: EBIT adjusted	3.3	3.1	4.7	5.7
% against prev. year	735%	-5%	51%	22%
Interest paid / received	-0.2	-0.3	-0.2	-0.1
Profit before tax	3.1	2.8	4.5	5.7
For information: EBT adjusted	3.1	2.8	4.5	5.7
% against prev. year		-8%	59%	25%
Income taxes from continuing operations	-1.0	-0.9	-1.4	-1.8
Tax rate	31%	30%	32%	32%
Net profit from continuing operations	2.1	2.0	3.1	3.9
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	2.1	2.0	3.1	3.9
Profit or loss attributable to minority interest	-0.6	-0.6	-0.8	-0.9
Profit or loss attributable to shareholders	1.5	1.4	2.3	3.0
thereof from continuing operations	1.5	1.4	2.3	3.0
thereof from discontinued operations	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.600	3.500	3.400	3.400
IFRS earnings per share, diluted	0.42	0.40	0.69	0.89
Adjusted earnings per share, diluted (contin.)	0.42	0.40	0.69	0.89

Fiscal year end December

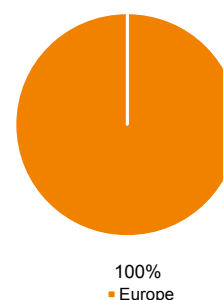
Source: ecotel communication and DZ BANK estimates

RATIOS

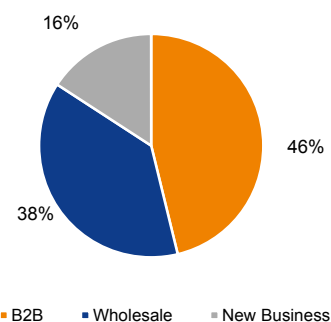
Euro	2013	2014e	2015e	2016e
Profit and loss ratios				
Total output (m)	92.0	96.5	98.6	100.5
EBITDA margin	7.3%	7.3%	8.9%	9.9%
EBIT margin	3.6%	3.2%	4.8%	5.7%
Net margin	2.3%	2.1%	3.1%	3.9%
Investment ratio	8.9%	5.4%	3.0%	2.8%
R&D as % of total output				
Net other operating costs as % of total output	11.2%	10.3%	10.3%	10.4%
Net financial income as % of total output	-0.2%	-0.3%	-0.2%	-0.1%
Interest cover	15.1	11.1	26.1	73.3
Average sales growth next five years	2.3%			
Average earnings growth next five years	20.4%			
Profitability ratios				
ROE	10.2%	8.7%	12.0%	13.1%
ROCE	14.2%	13.7%	21.8%	28.5%
Productivity ratios				
Sales per employee ('000)	973.53		483.33	966.35
EBIT per employee ('000)	34.85		23.04	55.19
Balance sheet ratios				
Equity ratio	45.1%	48.7%	53.7%	59.0%
Long term debt and equity / Fixed assets	116.6%	111.0%	120.6%	136.2%
Liquidity (quick ratio)	121.8%	114.3%	125.7%	142.2%
Receivables as % of total output	15.4%	13.6%	13.6%	13.6%
Investment (net of GW) / Depreciation		130.6%	73.2%	66.7%
Working capital as % of total output	0.0%	-1.8%	-1.8%	-1.8%
Net debt (m)	3.1	0.6	-3.7	-9.0
Net debt complete (m)	2.0	-0.6	-4.8	-10.1
Figures per share				
Earnings per share, diluted	0.42	0.40	0.69	0.89
Diluted cash earnings per share	1.37	1.53	1.90	2.12
Dividend per common share	0.00	0.00	0.00	0.00
Cash per share, diluted	1.70	1.89	2.60	3.58
Net debt per share, diluted	0.86	0.16	-1.08	-2.64
Valuation ratios				
Enterprise value / Sales	0.3	0.3	0.3	0.2
Enterprise value / EBITDA	4.2	4.7	3.3	2.4
Enterprise value / EBIT	8.5	10.6	6.1	4.2
EV/Sales to sales growth	0.20	0.15	0.13	0.11
PEG ratio - common shares		1.05		
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

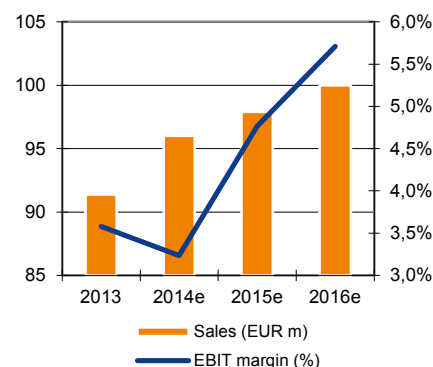
SALES BY REGION 2013



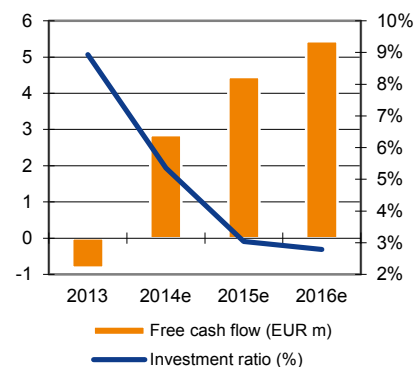
SALES BY BUSINESS SEGMENT 2013



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



¹⁾-⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

BALANCE SHEET

IFRS - Euro m	2013	2014e	2015e	2016e
ASSETS				
Non current assets	24.1	25.3	24.2	22.8
Intangible assets	13.8	15.3	14.8	14.3
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	9.4	9.2	8.5	7.7
Financial assets	0.9	0.9	0.9	0.9
Other long-term assets	0.0	0.0	0.0	0.0
Current assets	21.9	21.4	23.9	27.5
Inventories	0.1	0.1	0.1	0.1
Trade receivables	14.2	13.2	13.4	13.7
Financial assets	1.1	1.1	1.1	1.1
Other receivables and short-term assets	0.3	0.4	0.4	0.4
Liquid assets	6.1	6.6	8.9	12.2
Assets available for sale	0.0	0.0	0.0	0.0
Total assets	46.0	46.7	48.1	50.3
LIABILITIES				
Shareholders' equity	20.8	22.7	25.8	29.7
Share capital	3.6	3.6	3.6	3.6
Reserves	15.1	16.5	18.9	21.9
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.0	2.6	3.4	4.2
Treasury stock	0.0	0.0	0.0	0.0
Non current liabilities	7.4	5.4	3.4	1.4
Provisions for pensions	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	6.5	4.5	2.5	0.5
Other payables	0.9	0.9	0.9	0.9
Current liabilities	17.9	18.6	18.9	19.2
Trade payables	12.9	13.5	13.8	14.1
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.7	2.7	2.7	2.7
Other liabilities	2.3	2.4	2.4	2.4
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	46.0	46.7	48.1	50.3
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

IMPRINT

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Buy 19.8%, Hold 40.0%, Sell 6.3%

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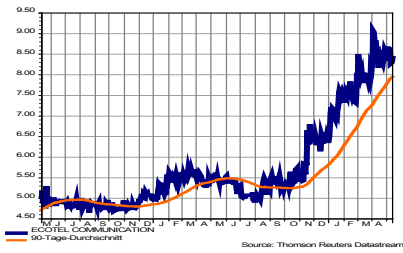
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RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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