

Telecommunication

A Research Publication by DZ BANK AG

ecotel communication⁵⁾⁷⁾⁸⁾⁹⁾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			EUR			
2016	116.6	(117.0)	0.24	(0.25)	33.9	0.67	(0.66)	8.3	0.23
2017e	113.0	(113.5)	0.22	(0.44)	36.3	0.35	(0.87)	4.4	0.23
2018e	115.5	(117.0)	0.29	(0.52)	26.9	0.54	(1.10)	6.9	0.23
2019e	118.0	(-)	0.40	(-)	19.4	0.77	(-)	9.9	0.23

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

Growth in core B2B business results in higher costs than previously expected by us

- » **FY 2016:** Consolidated revenue recorded a year-on-year rise of EUR 10.3 million to EUR 116.6 million, which is primarily attributable to the low-margin Wholesale business. However, revenue also rose in the high-margin core B2B segment, namely from EUR 42.9 million to EUR 45.2 million (+5.4% yoy), while gross profit rose from EUR 20.9 million to EUR 21.8 million (+4.3%). Reported EBITDA came in at EUR 6.6 million, or EUR 7.0 million when adjusted for 0.4 million of special expenses for management reorganization. The company generated an FCF of EUR 2.4 million and reported net financial assets of EUR 3.5 million as per the year-end.
- » **Outlook:** For the current financial year, management is expecting consolidated revenue of EUR 95-115 million and EBITDA of EUR 6.5-7.5 million (DZe: EUR 7.0 million).
- » **Model:** We have revised our model and reduced our estimates for 2017 and subsequent years, taking into account the following aspects. Firstly, we underestimated the total costs of generating further growth in the B2B segment, and have now increased both personnel expenses and depreciation. Secondly, in a parallel move we have scaled back expectations for the New Business segment, and are now anticipating flat business development in the current year and only slight growth thereafter. Overall, we have cut our EBITDA forecast for 2017 and subsequent years by around EUR 1 million per year.

Adjusted for special effects, the EBITDA target of EUR 7.0 million was achieved in the 2016 financial year. For the current year, management is expecting EBITDA of EUR 6.5-7.5 million. The commercial situation in the main B2B business area is currently characterized by significant order activity in the large projects area, but this activity is also proving cost-intensive. We have reduced our estimates for 2017 and subsequent years, and arrive at a new fair value of EUR 9.5 (down from EUR 10.5).

Selected Companies	Price on 27 Mar 2017	PER		EV / EBITDA		EV / Sales 17e	Re-com.
		17e	18e	17e	18e		
ecotel communication	7.81 EUR	36.3	26.9	4.3	3.9	0.26	↑
Deutsche Telekom	16.19 EUR	24.7	17.0	7.0	6.6	1.92	↑
United Internet	41.57 EUR	19.8	16.4	11.0	9.6	2.41	↑
QSC	1.59 EUR	–	45.4	7.5	6.7	0.81	–
Telefónica Deutschland	4.42 EUR	–	–	7.8	7.4	1.93	↓
Median for all peer group companies		22.3	17.0	7.7	7.1	1.93	–

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

EQUITIES

Flash

Completed: 28 Mar 2017, 15:52

Buy (prev. Buy)

Closing price 27 Mar 2017 (in EUR): 7.81
Fair value: 9.50 (prev. 10.50)

Financial ratios 2017e:

Book value per share (in EUR):	5.46
Equity ratio (in %):	57.0
Net margin (in %):	1.4
ROE (in %):	7.1
Dividend yield (in %):	2.9
Free cash flow (EUR m):	1.2
Net debt (EUR m):	-1.3

Number of shares

(million units): 3.5

Market cap

(in EUR m): 27.66

Free float (in %): 26.1

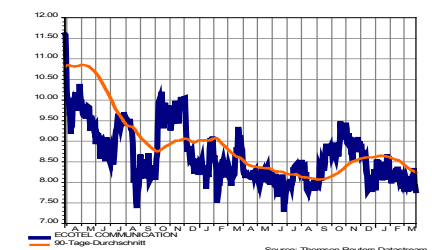
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11.05.2017: Q1 2017



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

In general we expect a positive business development. Key drivers are large projects of the B2B segment. However, these include also some cost ramp ups at the beginning. We expect the profit contributions from Wholesale and New Business more or less flat compared to last years levels.

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	

Topical share price-sensitive issues along with risks and opportunities have been factored into our recommendation as far as possible. Taking into account the current share price, we believe that price-sensitive opportunities currently outweigh other factors.

PROFIT AND LOSS ACCOUNT

Euro m	2016	2017e	2018e	2019e
Sales	116.6	113.0	115.5	118.0
Change in inventory/Own work	1.2	1.0	1.0	1.0
Total output	117.8	114.0	116.5	119.0
% against prev. year	8%	-3%	2%	2%
Cost of materials	-88.2	-83.2	-84.4	-85.7
Personnel expenses	-13.1	-13.5	-13.2	-13.3
Other operating income	0.0	0.0	0.0	0.0
Other operating expenses	-9.9	-10.3	-11.2	-11.3
Extraordinary income/expenses	0.0	0.0	0.0	0.0
EBITDA	6.6	7.0	7.7	8.7
For information: EBITDA adjusted	5.3	7.0	7.7	8.7
Depreciation	-4.3	-4.6	-4.8	-5.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	2.3	2.5	2.9	3.5
For information: EBIT adjusted	2.3	2.5	2.9	3.5
% against prev. year	-36%	4%	18%	22%
Interest paid / received	-0.1	-0.1	-0.1	-0.1
Profit before tax	2.3	2.4	2.8	3.5
For information: EBT adjusted	2.3	2.4	2.8	3.5
% against prev. year	-35%	4%	20%	23%
Income taxes from continuing operations	-0.5	-0.7	-0.8	-1.0
Tax rate	24%	30%	30%	30%
Net profit from continuing operations	1.7	1.7	2.0	2.4
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	1.7	1.7	2.0	2.4
Profit or loss attributable to minority interest	-0.9	-0.9	-1.0	-1.0
Profit or loss attributable to shareholders	0.8	0.8	1.0	1.4
thereof from continuing operations	0.8	0.8	1.0	1.4
thereof from discontinued operations	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	3.542	3.542	3.542	3.542
IFRS earnings per share, diluted	0.24	0.22	0.29	0.40
Adjusted earnings per share, diluted (contin.)	0.24	0.22	0.29	0.40

Fiscal year end December

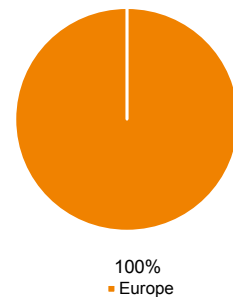
Source: ecotel communication and DZ BANK estimates

RATIOS

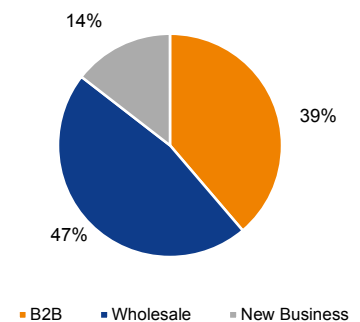
Euro	2016	2017e	2018e	2019e
Profit and loss ratios				
Total output (m)	117.8	114.0	116.5	119.0
EBITDA margin	4.5%	6.1%	6.6%	7.3%
EBIT margin	2.0%	2.1%	2.5%	3.0%
Net margin	1.5%	1.4%	1.7%	2.0%
Investment ratio	3.4%	4.4%	4.3%	4.2%
R&D as % of total output				
Net other operating costs as % of total output	8.4%	9.0%	9.6%	9.5%
Net financial income as % of total output	-0.1%	-0.1%	-0.1%	-0.1%
Interest cover	8.2	27.5	40.8	55.8
Average sales growth next five years	2.3%			
Average earnings growth next five years				
Profitability ratios				
ROE	7.7%	7.1%	8.1%	9.3%
ROCE	12.8%	13.0%	15.3%	18.8%
Productivity ratios				
Sales per employee ('000)	520.16	464.36	456.86	449.06
EBIT per employee ('000)	10.36	9.98	11.37	13.33
Balance sheet ratios				
Equity ratio	54.1%	57.0%	57.9%	59.1%
Long term debt and equity / Fixed assets	116.6%	113.5%	117.7%	125.9%
Liquidity (quick ratio)	118.7%	115.4%	121.3%	132.0%
Receivables as % of total output	7.9%	7.9%	7.9%	7.9%
Investment (net of GW) / Depreciation		109.9%	104.2%	96.8%
Working capital as % of total output	-2.3%	-2.3%	-2.3%	-2.3%
Net debt (m)	-3.5	-1.3	-2.3	-4.1
Net debt complete (m)	-3.9	-4.2	-5.2	-7.1
Figures per share				
Earnings per share, diluted	0.24	0.22	0.29	0.40
Free cash flow per share, diluted	0.67	0.35	0.54	0.77
Dividend per common share	0.23	0.23	0.23	0.23
Cash per share, diluted	2.10	1.86	2.12	2.63
Net debt per share, diluted	-0.98	-0.35	-0.64	-1.15
Valuation ratios				
Enterprise value / Sales	0.2	0.3	0.3	0.2
Enterprise value / EBITDA	5.2	4.3	3.9	3.4
Enterprise value / EBIT	11.8	12.3	10.4	8.3
EV/Sales to sales growth	0.10	0.12	0.11	0.11
PEG ratio - common shares	16.85			
Fiscal year end December				

Source: ecotel communication, DZ BANK estimates

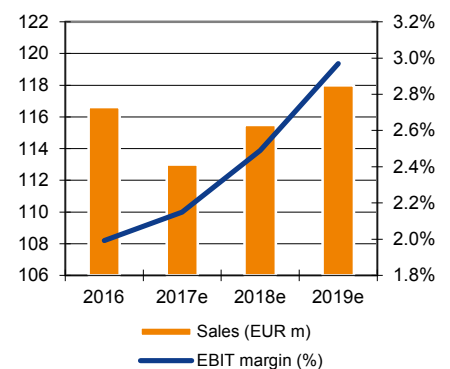
SALES BY REGION 2016



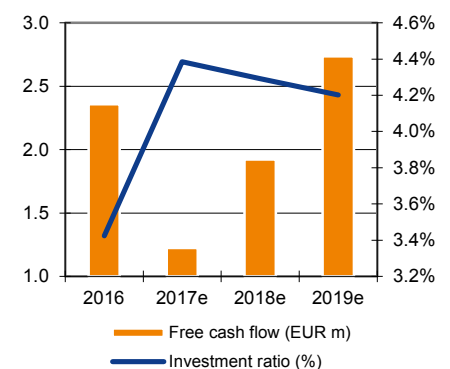
SALES BY BUSINESS SEGMENT 2016



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



¹⁾ - ¹²⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

BALANCE SHEET

IFRS - Euro m	2016	2017e	2018e	2019e
ASSETS				
Non current assets	21.7	22.2	22.4	22.2
Intangible assets	12.5	12.2	11.8	11.3
thereof goodwill	8.9	8.9	8.9	8.9
Tangible assets	8.5	9.2	9.9	10.2
Financial assets	0.6	0.6	0.6	0.6
Other long-term assets	0.2	0.2	0.2	0.2
Current assets	19.8	18.7	19.8	21.9
Inventories	0.0	0.0	0.0	0.0
Trade receivables	9.3	9.0	9.2	9.4
Financial assets	1.8	1.8	1.8	1.8
Other receivables and short-term assets	1.3	1.3	1.3	1.3
Liquid assets	7.5	6.7	7.6	9.4
Assets available for sale	0.0	0.0	0.0	0.0
Total assets	41.5	40.9	42.2	44.1
LIABILITIES				
Shareholders' equity	22.4	23.3	24.5	26.1
Share capital	3.5	3.5	3.5	3.5
Reserves	16.1	16.1	16.3	16.9
Other equity	0.0	0.0	0.0	0.0
Minority interest	2.8	3.7	4.7	5.7
Treasury stock	0.0	0.0	0.0	0.0
Non current liabilities	2.9	1.9	1.9	1.9
Provisions for pensions	0.0	0.0	0.0	0.0
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	2.2	1.2	1.2	1.2
Other payables	0.7	0.7	0.7	0.7
Current liabilities	16.2	15.7	15.8	16.1
Trade payables	11.7	11.3	11.6	11.8
Other provisions	0.0	0.0	0.0	0.0
Financial liabilities	3.1	3.0	2.9	2.9
Other liabilities	1.4	1.3	1.4	1.4
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	41.5	40.9	42.2	44.1
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

SUMMARY

Euro m	2016	2017e	2018e	2019e
Profit and loss account				
Total output	117.8	114.0	116.5	119.0
Cost of materials	-88.2	-83.2	-84.4	-85.7
Personnel expenses	-13.1	-13.5	-13.2	-13.3
Other operating income/expenses	-9.9	-10.3	-11.2	-11.3
EBITDA	6.6	7.0	7.7	8.7
Depreciation	-4.3	-4.6	-4.8	-5.2
thereof on goodwill	0.0	0.0	0.0	0.0
Operating profit (EBIT)	2.3	2.5	2.9	3.5
Interest paid / received	-0.1	-0.1	-0.1	-0.1
Profit before tax	2.3	2.4	2.8	3.5
Income taxes from continuing operations	-0.5	-0.7	-0.8	-1.0
Net profit from continuing operations	1.7	1.7	2.0	2.4
Net profit from discontinued operations	0.0	0.0	0.0	0.0
Net profit	1.7	1.7	2.0	2.4
Profit or loss attributable to minority interest	-0.9	-0.9	-1.0	-1.0
Profit or loss attributable to shareholders	0.8	0.8	1.0	1.4
Balance sheet				
Non current assets	21.7	22.2	22.4	22.2
thereof goodwill	8.9	8.9	8.9	8.9
Current assets	19.8	18.7	19.8	21.9
thereof liquid assets	7.5	6.7	7.6	9.4
Shareholders' equity	22.4	23.3	24.5	26.1
Non current liabilities	2.9	1.9	1.9	1.9
Current liabilities	16.2	15.7	15.8	16.1
Shareholders' equity and liabilities	41.5	40.9	42.2	44.1
Cash flow statement				
Operating CF (cont.)	6.0	6.2	6.9	7.7
Operating CF (discont.)	0.0			
Investing CF (cont.)	-3.6	-5.0	-5.0	-5.0
Investing CF (discont.)	0.0			
Free cash flow (cont.)	2.4	1.2	1.9	2.7
Free cash flow (discont.)	0.0			
Financing CF (cont.)	-2.6	-2.0	-1.0	-0.9
Financing CF (discont.)	0.0			
Increase/decrease of cash	-0.3	-0.8	0.9	1.8
Fiscal year end December				

Source: ecotel communication and DZ BANK estimates

I. IMPRINT

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Marie-Curie-Straße 24 - 28 in 60349 Frankfurt / Main

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Regarding research / financial analysis the distributing bank is supervised by BaFin.

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- this Research Publication represents his own independent specialist evaluation of the analysed object in compliance with the Conflicts of Interest Policy of DZ BANK and
- his compensation depends neither in full nor in part, neither directly nor indirectly, on an opinion expressed in this Research Publication.

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The **categories for investment recommendations in Financial Analyses** of DZ BANK are defined as follows:

4.1 Shares:

– **Fundamental Analysis:**

"Buy" means that the absolute appreciation expected in the next twelve months is greater than 5%.

"Sell" means that the absolute depreciation expected in the next twelve months is greater than 5%.

"Hold" means that the absolute *price* volatility expected in the next twelve months lies between +5% and -5%.

– **Technical (Chart) Analysis (tertiary trend):**

The short term technical estimate refers to the short tertiary move of the share:

„Positive“ means that an absolute appreciation could be expected during the next week.

"Negative" means that an absolute depreciation could be expected during the next week.

"Neutral" means that no absolute change of price could be expected during the next week.

– **Technical (chart) Analysis (secondary trend):**

The longer term technical estimate refers to the shorter secondary move of the share:

„Positive“ means that an absolute appreciation greater than 10% could be expected during the next six months.

"Negative" means that an absolute depreciation greater than 10% could be expected during the six months.

"Neutral" means that an absolute change of price between +10% to -10% could be expected during the next six months.

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The prevailing factor for an investment recommendation regarding an **issuer** is whether, according to the estimate of DZ BANK, this issuer's bonds are able to perform better, worse or in tandem with the bonds of comparable issuers in the next six months. The below defined recommendation categories apply to 'senior unsecured bonds' denominated in Euro and in case of Emerging Markets issuers in individual cases also in US-Dollar:

"Outperformer" means that a better performance is expected for the issuer's bonds than for the bonds of comparable issuers.

"Underperformer" means that a worse performance is expected for the issuer's bonds than for the bonds of comparable issuers.

"Market performer" means that the performance of the issuer's bonds is not expected to materially differ from the bonds of comparable issuers.

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Statements on the **isolated evaluation of specific aspects** that **precede an investment recommendation** on a financial instrument and / or an issuer - **especially** according to the **sustainability criteria** defined by DZ BANK, its defined **value approach**, its defined asset allocation (DZ BANK Portfolio), its defined **sector strategy Euro-Stoxx** (DZ BANK Sector Favorites), its defined valuation of **payments to beneficiaries (DZ BANK Dividend Aristocrats)** and its **CRESTA-SCORE MODEL** - are **not investment categories** and therefore **do not contain any investment recommendations**.

These isolated statements **alone** are **not sufficient** to form the basis of an investment decision. Reference is made to the explanation of the accompanying used methods.

5. Scheduled Updates and Validity Periods of Investment Recommendations

5.1 The frequency of **updates of Financial Analyses** depends in particular on the underlying macroeconomic conditions, current developments on the

¹⁾ – ¹²⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

relevant markets, the current development of the analyzed companies, measures undertaken by the issuers, the behavior of trading participants, the competent supervisory authorities and the competent central banks as well as a wide range of other parameters. The periods of time named below therefore merely provide a **non-binding indication** of when an updated investment recommendation may be expected.

5.2 No obligation exists to update an investment recommendation. If an investment recommendation is updated, this update **replaces** the previous **investment recommendation with immediate effect**.

If no update is made, investment recommendations **end / lapse on expiry** of the **validity periods** named below. These periods **begin** on the **day** and at the **time** the investment recommendation is **completed**.

5.3 The validity periods for investment recommendations (financial analyses) are as follows:

Shares:

Fundamental analysis	six months
Technical (chart) analysis (tertiary trend)	one week
Technical (chart) analysis (secondary term)	six months

Fixed income instruments:

Issuers	six months
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5.4 Evaluations of isolated aspects without investment recommendation have the following validity periods:

Sustainability analyses: one month

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

5.5 In a given case, updates of analyses may also be **temporarily suspended without prior announcement** on account of compliance with supervisory regulations.

5.6 If **no updates are to be made in the future** because the analysis of an object is to be discontinued, notification of this shall be made in the final publication or, if no final publication is made, the close of the analysis shall be given in a separate note.

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Each working day DZ BANK prepares a **general overview of all investment recommendations** on financial instruments and / or issuers disseminated in the last **twelve months**, containing all details specified by the supervisor. This list can be **read and downloaded free-of-charge** under www.dzbank.com/disclosures.

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7.5 Other theoretically feasible, information-based personal conflicts of interest among employees of the Research and Economics Division and persons closely associated with them are avoided in particular by the measures explained in **sub-paragraph 7.2** and the other measures described in the policy.

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7.8 Investment recommendations for the same financial instrument / issuer that have deviated in the last 12 months are stated in the respective current Financial Analysis together with the relevant investment recommendation category and date.

7.9 The quarterly information on the share of the investment categories stated in **sub-paragraph 4.1** and **4.2** for **shares** and **fixed income instruments** in the total number of investment recommendations of DZ BANK and the information on the share of these categories relating to the issuers to whom DZ BANK has rendered services in the **past twelve months** in accordance with Appendix I Sections A and B of Directive 2014/65/EU, can be **read and downloaded free-of-charge** under www.dzbank.com/disclosures.

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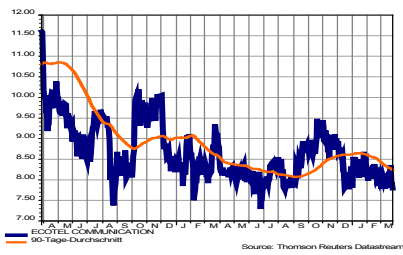
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RATING HISTORY

Recommendation	Date	Price
Buy	28 Sep 2011	5.00 EUR

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