

# Telegate

Telecommunications

2007-11-07

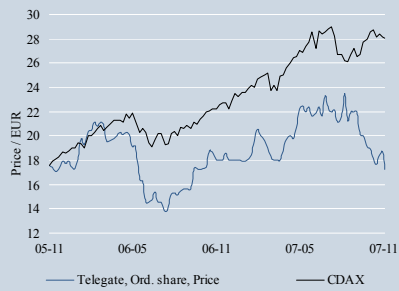
Applied disclosures can be found in the appendix

Buy

Fair Value EUR22.00

Price EUR17.22 (Closing price as of 2007-11-06)

## Price and rel. Performance



## USE THE RECENT SHARE PRICE DROP TO BUILD UP POSITIONS

### INVESTMENT CASE AND PERFORMANCE TRIGGER

Speculation that Deutsche Telekom's 11833 directory assistance may be sold weigh on the share. A new owner of 11833 might try to develop the business more aggressively than DT has in the past, which could lead to temporarily higher spending on marketing. On the other hand, we see signs that directory assistance call volumes from inside Germany are still declining at a high, single digit rate. Nevertheless, the reported Q3 figures show the stabilization of the German sales figures at continuing strong margins. Cash flow generation remains strong and investors can hope for a special dividend based on a net liquidity of €53m.

### Market Data

Reuters	TGTG.DE
Bloomberg	TGT GR
Market cap €bn	0.4
Free float %	21.7

€m	Q3 2006	Q2 2007	Q3 2007e	qoq %	yoy %	2006	2007e	yoy %
Sales	45.6	43.5	44.0	1.1%	-3.5%	178.9	177.8	-0.6%
EBITDA	9.3	12.4	12.8	3.0%	37.8%	17.0	49.9	193.8%
EBITDA-margin	20.4%	28.5%	29.1%			9.5%	28.1%	
Net Profit	5.5	8.4	9.7	16.2%	78.5%	6.0	34.6	477.7%
Reported EPS (€)	0.26	0.40	0.46	14.5%	76.0%	0.29	1.62	469.5%

### Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	178.91	177.83	179.04
Net profit m	6.37	34.56	31.44
Adj. EPS	0.30	1.62	1.48
PER	58.3	10.6	11.7
EV/EBIT	35.2	7.9	7.9
EBIT mgn. %	5.7	23.4	21.9

EPS CAGR 06-09e: 72 %

### FACTS

Q3 sales at € 44.0m (-3.5%yoy, SOP estimate € 44.4m) slightly below our forecast based on weaker performance in the French business. Italy/Spain reported slightly better than we expected (sales up 14.4%). We are also happy to see that the German business seems to have stabilized its top line vs. the two previous quarters (sales € 28.7m).

EBITDA for the group up at € 12.8m (+37.8% YOY, SOP estimate €12.9m) broadly in line with our estimate based on a strong operational performance and good cost control. The French business had the first quarter of positive EBITDA, although sales were down 21.3% YOY here.

### ASSESSMENT

Outlook for 2007 confirmed with EBITDA "approximately € 50m". We believe that the company will come close to that target (SOP estimate € 49.9m), although the figure contains some non cash items (reversal of accruals following the progress of the law suits against Deutsche Telekom; SOP estimate € 5m for the full year 2007).

We expect continuing good newsflow regarding the reimbursement cases in the months to come. The liquidity of € 53.3m leaves room for solid dividends and strategic acquisitions to strengthen the business.

### VALUATION

Valuation is too low with EV/EBTDA 6.6x and PER 11.7x for 2008.

### Next Events

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**Telegate - P&L (Cost of Sales)**

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Sales</b>	<b>150.1</b>	<b>178.9</b>	<b>177.8</b>	<b>179.0</b>	<b>183.7</b>
Cost of goods sold	-58.0	-85.6	-70.5	-71.5	-74.7
<b>Gross profit</b>	<b>92.1</b>	<b>93.3</b>	<b>107.3</b>	<b>107.5</b>	<b>108.9</b>
Selling costs	-28.2	-53.3	-29.5	-32.1	-32.6
Administrative costs	-25.9	-26.1	-28.4	-28.7	-28.9
Other operating income/expenses (net)	0.0	3.1	0.5	0.4	0.2
<b>EBITDA</b>	<b>37.9</b>	<b>17.0</b>	<b>49.9</b>	<b>47.1</b>	<b>47.6</b>
<b>EBIT</b>	<b>31.2</b>	<b>10.3</b>	<b>41.5</b>	<b>39.1</b>	<b>40.6</b>
Interest result	1.5	1.2	1.3	2.8	3.9
Other Financial income / expenses	0.0	0.1	0.0	0.0	0.0
<b>Financial result</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>	<b>2.8</b>	<b>3.9</b>
<b>Profit or loss on ordinary activities</b>	<b>32.7</b>	<b>11.6</b>	<b>42.8</b>	<b>41.9</b>	<b>44.5</b>
<b>EBT</b>	<b>32.7</b>	<b>11.6</b>	<b>42.8</b>	<b>41.9</b>	<b>44.5</b>
Taxes	-5.5	-5.2	-8.3	-10.5	-11.6
<b>Profit / loss for the year (cont. operations)</b>	<b>27.1</b>	<b>6.4</b>	<b>34.6</b>	<b>31.4</b>	<b>32.9</b>
<b>Net profit</b>	<b>27.1</b>	<b>6.4</b>	<b>34.6</b>	<b>31.4</b>	<b>32.9</b>
<b>Adjusted net profit</b>	<b>27.1</b>	<b>6.4</b>	<b>34.6</b>	<b>31.4</b>	<b>32.9</b>

**Key ratios and figures**

EURm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Valuation</b>					
PER	12.3	58.3	10.6	11.7	11.1
P/BV	10.5	27.9	8.7	9.5	9.2
Dividend yield %	0.0	3.7	3.8	3.8	3.9
EV/Sales	2.0	2.0	1.9	1.7	1.6
EV/EBITDA	7.9	21.3	6.6	6.6	6.1
Sustainable FCF yield %	4.9	-2.4	8.5	7.3	8.1
<b>Data per share</b>					
EPS (reported)	1.29	0.30	1.62	1.48	1.55
adj. EPS	1.29	0.30	1.62	1.48	1.55
Dividend	0.65	0.65	0.65	0.67	0.70
Book value per share	1.52	0.64	1.97	1.81	1.86
<b>Growth rates %</b>					
Sales	6.3	19.2	-0.6	0.7	2.6
EBITDA	6.5	-55.2	193.8	-5.6	1.0
EBIT	6.3	-67.1	304.0	-5.8	3.8
Net profit	-2.4	-76.5	442.1	-9.0	4.7
adj. EPS	-0.5	-76.5	434.5	-9.0	4.7
<b>Margins %</b>					
Gross	61.4	52.2	60.4	60.1	59.3
EBITDA	25.3	9.5	28.1	26.3	25.9
EBIT	20.8	5.7	23.4	21.9	22.1
<b>Net profit</b>	<b>18.1</b>	<b>3.6</b>	<b>19.4</b>	<b>17.6</b>	<b>17.9</b>
<b>Expense ratios %</b>					
Personnel cost to sales	9.6	9.4	10.6	10.7	10.5
Depreciation to sales (Cost of sales)	4.5	3.8	4.7	4.5	3.8
Tax rate	16.9	45.0	19.3	25.0	26.0
<b>Other ratios</b>					
Interest cover	nm	-242.9	nm	nm	nm

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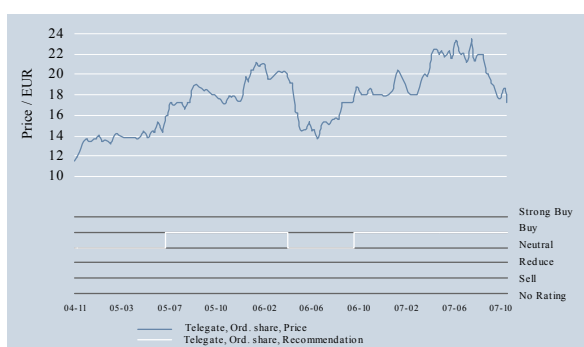
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Neutral	142	37.0	16	28.1
Reduce	26	6.8	0	0.0
Sell	1	0.3	0	0.0
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