ODDO SEYDLER

Equity flash – Trading Update
Telecommunication

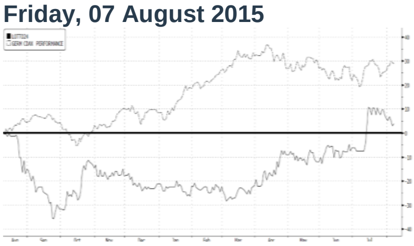
telegate AG

HOLD (HOLD) | Target EUR 2.50 (EUR 3.50)
Price (last closing price) : **EUR 1.30**| Upside : 87%

Est. change	2015e	2016e
EPS	-	-

Re-branding and new products launched, but no impact on figures yet

Friday, 07 August 2015



Capital		
TGT GY | TGTGn.F		
Market Cap (EURm)		25
Enterprise value (EURm)		21
Extrema 12 months	4.7	12
Free Float (%)		70.1%

Performance (%)	1m	3m	12m
Absolute	4.3	-41.3	-71.9
Perf. rel. "sector"	2.4	-38.5	-78.8
Perf. rel. CDAX	-3.3	-42.4	-78.2

P&L	12/15e	12/16e	12/17e
Sales (EURm)	53.6	47.4	47.3
EBITDA (EURm)	-0.2	1.8	1.2
EBIT (EURm)	-10.1	-6.1	-5.6
Attr. net profit (EURm)	-6.7	-4.0	-3.7
EPS (EUR)	-0.35	-0.21	-0.19
Dividend (EUR)	0.00	0.00	0.00
P/E (x)	n.m.	n.m.	n.m.
P/B (x)	0.5	0.5	0.5
Net Yield (%)	0%	0%	0%
FCF yield (%)	-4%	-1%	-1%
EV/Sales (x)	0.4	0.4	0.4
EV/EBITDA (x)	n.m.	11.6	17.4
EV/EBIT (x)	n.m.	n.m.	n.m.
Gearing (%)	-8%	-9%	-9%
Net Debt/EBITDA(x)	n.m.	n.m.	n.m.

Next Events	
Q3 results	12 November 2015

Q2 results – cost reduction dampening the shrinking business

TGT's Q2 results were similar to Q1 despite the launch of new products e.g. Facebook page and Google MyBusiness. But we were not expecting a meaningful revenue contribution until autumn/Q4 2015 anyway. All in all, Q2 2015 went as expected (see table).

in EURm	Q2 15	Q2 15e
Revenues	13.412	13.722
Gross profit	*6.604*	*6.655*
EBITDA ex OTE	*1.141*	
EBITDA	-0.165	0.250
EBIT	-2.745	-2.224
Net result	-2.192	-1.897

Guidance for 2015 reiterated

Management reiterated its existing guidance for 2015 (group revenues of EUR 52-56m, EBITDA before non-recurring items of EUR 2-3m). Additionally, it reiterated its expectation of revenue growth in the Digital business, but also indicated that double-digit growth now seems "challenging". H1 2015 EBITDA before non-recurring items came in at € 2.8m, which implies rather flat guidance for H2 2015. For Q3 2015, we forecast group revenues at EUR 13.2m and EBIT at EUR -2.3m, leading to a net loss of EUR -1.8m.

Strategy for 2015, what happened in Q2 and what can we expect in H2?

2015 can be considered a transition year as the company plans to hone its digital presence and continue to develop into an online company:

- telegate's B2B brand was relaunched under the new brand name 'klicktel';
- product rollouts: Google My Business/Business View and Facebook (Facebook advertisements to start in September);
- launch of new efficiency program with immediate effect;
- new product launches will continue together with CRM investments;
- telegate has filed a lawsuit against the no-appeal ruling in its claim for damages against Deutsche Telekom.

HOLD, PT cut to EUR 2.50 (3.50)

As noted in recent updates, our more conservative approach mirrors the company's flattish adj. EBITDA guidance for H2 2015. As underlined by the company's combination of new efficiency program, planned product shifts and roll-outs in H2 2015, TGT seems to be navigating its remake into an online company with the right dose of realignment. In addition to these fundamental changes, we believe the stock's sell-off post SEAT insolvency (TGT share transfer in 2014) should be over now, so that the current trading level of ~€ 1.30 should be the turning point. At this level the stock is valued roughly at the company's cash level, which limits further downside. Nonetheless, we see limited upside from our current perspective given i) the ongoing realignment process, which will take some time to finish, and ii) the conservative guidance for H2 2015. Hence, we reiterate our Hold rating and cut our PT to € 2.50. Should success become visible, the share could recover to pre-SEAT-insolvency sell-off levels. Fundamentally, our current FVpS stands at € 2.81.

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Profit and loss account

(31 December) IFRS EURm	2012	2013	2014	2015E	2016E	2017E
Sales	**86.6**	**72.3**	**62.3**	**53.6**	**47.4**	**47.3**
YoY growth	-21.3%	-16.5%	-13.9%	-13.9%	-11.6%	-0.2%
Cost of revenues	-39.5	-33.2	-31.3	-27.9	-23.7	-23.6
Gross profit	**47.0**	**39.2**	**31.0**	**25.7**	**23.7**	**23.6**
in % of sales	54.3%	54.2%	49.7%	48.0%	50.0%	50.0%
Selling and distribution costs	-41.6	-30.0	-27.3	-24.1	-21.3	-21.3
General administrative expenses	-15.1	-12.3	-13.2	-11.8	-8.5	-8.0
Other operating income/expense	60.1	0.3	0.0	0.1	0.0	0.0
Operating income (EBIT)	**50.4**	**-2.8**	**-9.5**	**-10.1**	**-6.1**	**-5.6**
in % of sales	58.2%	-3.9%	-15.2%	-18.9%	-12.9%	-11.9%
Net financial result	23.1	0.0	0.4	0.2	0.2	0.2
EBT	**73.5**	**-2.8**	**-9.1**	**-9.9**	**-5.9**	**-5.4**
in % of sales	84.9%	-3.9%	-14.6%	-18.5%	-12.5%	-11.5%
Income taxes	-26.7	0.9	2.3	3.2	1.9	1.7
Result from continuing operations	**46.8**	**-1.9**	**-6.8**	**-6.7**	**-4.0**	**-3.7**
Result from discontinued operations	**0.2**	**-0.1**	**0.4**	**0.0**	**0.0**	**0.0**
Net income including minorities	**47.1**	**-2.0**	**-6.4**	**-6.7**	**-4.0**	**-3.7**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income attributable to shareholders	**47.1**	**-2.0**	**-6.4**	**-6.7**	**-4.0**	**-3.7**
in % of sales	54.4%	-2.8%	-10.3%	-12.5%	-8.5%	-7.8%
Shares outstanding (in millions)	19.1	19.1	19.1	19.1	19.1	19.1
Earnings per share (EUR)	**2.46**	**-0.10**	**-0.33**	**-0.35**	**-0.21**	**-0.19**
Dividend per share (EUR)	**2.00**	**0.40**	**0.00**	**0.00**	**0.00**	**0.00**

Source: Company Data, Oddo Seydler AG

Balance Sheet

IFRS	EURm	2012	2013	2014	2015E	2016E	2017E
Assets							
Noncurrent assets		**25.4**	**24.9**	**20.9**	**16.3**	**13.1**	**10.5**
as % of total assets		17.6%	23.7%	33.8%	30.4%	26.0%	22.1%
Property, plant and equipment		6.0	5.7	3.7	2.1	0.9	0.2
Intangible assets		12.3	12.4	10.4	7.4	5.4	3.5
Goodwill		6.7	6.8	6.8	6.8	6.8	6.8
Deferred tax assets		0.3	0.0	0.0	0.0	0.0	0.0
Others		0.2	0.0	0.0	0.0	0.0	0.0
Current assets		**118.6**	**80.3**	**41.0**	**37.4**	**37.4**	**37.1**
as % of total assets		82.4%	76.3%	66.2%	69.6%	74.0%	77.9%
Trade accounts receivable		16.3	13.2	11.9	11.3	11.4	11.5
Cash and cash equivalents		93.3	10.0	4.3	3.2	3.0	2.7
Others		9.1	27.1	54.6	23.1	23.0	22.9
Total Assets		**144.1**	**105.3**	**62.0**	**53.8**	**50.5**	**47.7**
Shareholders´ equity and liabilities							
Shareholders´ equity		**101.1**	**60.9**	**47.6**	**40.9**	**36.9**	**33.2**
as % of total equity and liabilities		70.2%	57.9%	76.8%	76.0%	73.0%	69.6%
Share capital		19.1	19.1	19.1	19.1	19.1	19.1
Additional paid in capital		32.1	32.1	32.1	32.1	32.1	32.1
Treasury shares		0.0	0.0	0.0	0.0	0.0	0.0
Other revenue reserves		4.2	0.0	0.0	0.0	0.0	0.0
Retained earnings		45.7	9.7	-3.7	-10.4	-14.4	-18.1
Accumulated other comprehensive income		0.0	0.1	0.1	0.1	0.1	0.1
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0
Noncurrent liabilities		**4.5**	**4.0**	**2.5**	**2.4**	**2.6**	**2.8**
as % of total equity and liabilities		3.1%	3.8%	4.0%	4.5%	5.1%	5.8%
Provisions		0.3	0.4	0.7	0.8	0.9	1.1
Deferred taxes		4.2	3.7	1.8	1.5	1.5	1.5
Others		0.0	0.0	0.1	0.1	0.1	0.1
Current liabilities		**38.5**	**40.3**	**11.9**	**10.5**	**11.1**	**11.7**
as % of total equity and liabilities		26.7%	38.3%	19.2%	19.5%	21.9%	24.6%
Trade accounts payable		4.3	2.1	1.6	1.7	1.8	1.9
Accrued liabilities		16.2	9.5	8.0	6.7	7.4	8.1
Provisions		3.4	1.1	0.2	0.2	0.2	0.2
Other current liabilities		2.5	2.1	2.1	1.9	1.7	1.5
Others		12.1	25.5	0.0	0.0	0.0	0.0
Total equity and liabilities		**144.1**	**105.3**	**62.0**	**53.8**	**50.5**	**47.7**

Source: Company Data, Oddo Seydler AG

Cash flow statement

IFRS EURm	2012	2013	2014	2015E	2016E	2017E
Income before income tax from continuing operations	**73.5**	**-2.8**	**-9.1**	**-9.9**	**-5.9**	**-5.4**
Income before income tax from discontinued operations	**0.7**	**-0.1**	**0.4**	**0.0**	**0.0**	**0.0**
Income before income tax	**74.2**	**-2.9**	**-8.7**	**-9.9**	**-5.9**	**-5.4**
Depreciation of fixed assets	1.6	2.2	2.1	2.1	1.7	1.4
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangibles assets	13.6	8.3	9.7	7.9	6.3	5.5
Others	-32.3	-10.1	-1.5	2.8	1.8	1.7
Movements in working capital:						
Change in trade accounts receivable	3.4	2.5	1.5	0.6	-0.1	-0.1
Change in other current and financial assets	-7.8	2.4	-2.0	1.7	0.0	0.0
Change in trade accounts payable	-0.2	-0.3	0.3	0.1	0.1	0.1
Change in current provisions	1.8	-2.0	0.4	0.0	0.0	0.0
Change in accrued expenses, other current and financial liabilities	-12.7	-5.6	-1.9	-1.5	0.5	0.6
Cash flow from operating activities	**41.6**	**-5.6**	**-0.1**	**3.8**	**4.3**	**3.6**
Capital expenditures for intangibles assets and PPE	-4.6	-9.8	-5.7	-5.4	-4.7	-4.3
Others	0.0	-53.2	31.6	0.2	0.0	0.0
Cash flow from investing activities	**-4.6**	**-62.8**	**26.3**	**-4.9**	**-4.4**	**-4.0**
Dividends paid	-6.7	-14.0	-31.9	0.0	0.0	0.0
Interest paid	0.0	-0.9	-0.1	0.0	0.0	0.0
Interest received	24.0	0.1	0.4	0.3	0.3	0.3
Acquisition of non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	**17.2**	**-14.9**	**-31.9**	**0.0**	**0.0**	**0.0**
Net increase (decrease) in cash&cash equivalents for period	**54.2**	**-83.3**	**-5.7**	**-1.1**	**-0.1**	**-0.3**
Currency adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Cash&cash equivalents at beginning of period	**39.0**	**93.3**	**10.0**	**4.3**	**3.2**	**3.0**
Cash and cash equivalents at the end of the period	**93.3**	**10.0**	**4.3**	**3.2**	**3.0**	**2.7**

Source: Company Data, Oddo Seydler AG

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Recommendation history over the last 12 months for the company analysed in this report:

Date	Recommendation	Price at change date	Price target
07 August 2015	HOLD	EUR 1.30	EUR 2.50
07 May 2015	HOLD	EUR 2.29	EUR 3.50
20 March 2015	HOLD	EUR 2.87	EUR 3.50
23 January 2015	HOLD	EUR 2.84	EUR 4.00
6 November 2014	HOLD	EUR 3.51	EUR 4.00
6 August 2014	HOLD	EUR 4.70	EUR 5.00

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