

# Tecnocom

## Profitable technology

### ► Significant improvement in margins likely as of 2010

Even though sales are likely to continue falling (but at a slower rate than in recent quarters), we are expecting a **significant improvement in Tecnocom's margins** due to: 1) its dominant position in financial services; 2) the potential of LatAm for the telecoms business; and 3) the streamlining of costs that has been implemented over the last 2 years.

### ► The Consulting & Outsourcing and Managed Services divisions will benefit from the recurrent nature of their respective businesses

We are forecasting a **slowdown in the price-related revenue contraction** at both divisions during 1H10, as of when the company should then receive a boost from: **1) Consulting & Outsourcing** (sales 2010e -1.5% vs. -6.3% 2009e) - dominant position in services to Spain's financial sector, which should provide growth opportunities relating to the future consolidation of the country's savings banks; **2) Managed Services** (sales 2010e -0.5% vs. -4.2% 2009e) - renegotiation of a large number of contracts, together with new international clients.

### ► Slow but gradual recovery in the telecoms business

**The contraction in sales will slow as of 4Q09**, mainly due to the **resumption of investment projects in LatAm**, which has been helped by the region's improved economic outlook. As a result, compared with the 15.6% drop in revenues that we are expecting from Networks & Systems in 2009, we are forecasting a significant improvement for full-year 2010e (to -3.3%), with positive growth rates after the summer.

### ► Margins will be the main beneficiaries as of 2010

**The most positive aspect looking ahead is the improvement that we are expecting at the operating level.** The continual streamlining of costs following the Getronics acquisition at the end of 2007 and the increased focus in recent quarters on added-value clients should provide margins with an additional boost as of 2010e (EBIT margin 6.2% in 2009e, 7.1% 2010e, and 7.6% in 2011e).

### ► Change of recommendation

Based on the above scenario, we are upgrading the stock from Sell to **BUY**, and our target price (Dec 2010) from €2.9/share to **€3.5/share**.

### Key figures

(€Mn)	2008	2009e	2010e	2011e
Net group profit	14.2	13.2	15.5	14.1
% inc.	93.7	-7.5	17.7	-8.9
EBITDA	24.2	24.4	27.2	29.5
% inc.	135.2	0.6	11.5	8.4
EPS (€)	0.23	0.19	0.22	0.20
% inc.	40.5	-18.0	17.7	-8.9
DPS (€)	0.00	0.00	0.00	0.00
% inc.	n.a.	n.a.	n.a.	n.a.
P/E	13.9	15.6	13.3	14.5
EV/EBITDA	10.1	11.3	9.5	8.3
Div. Yield (%)	0.0	0.0	0.0	0.0
P/BV	1.2	1.2	1.1	1.0
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Nº shares (Mn)	75.0		Daily vol. (€Mn)	0.2
M. Cap. (€Mn)	220.6		Free-float (%)	29.2

Source: Bloomberg and ACF Research

**Rafael Cavanillas**

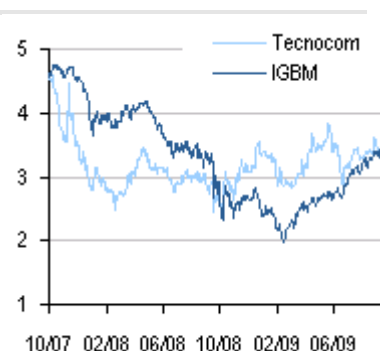
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## TEC SM / TEC.MC

Current price (3/11/09): €2.94  
Target price (12/10) €3.50

Recommendation **BUY**

### Price performance (€)



Performance (%)	1 m.	3 m.	12 m.
Absolute	-7.4	-13.8	-1.4
Relative	-4.6	-19.1	-20.1

**Main figures**

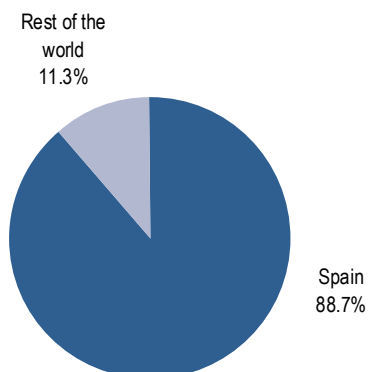
(€Mn)	2006	2007	2008	2009e	2010e	2011e
<b>Sales</b>	<b>118.7</b>	<b>162.6</b>	<b>435.8</b>	<b>392.1</b>	<b>384.6</b>	<b>389.3</b>
% inc.	80.1	36.9	168.1	-10.0	-1.9	1.2
Cost of goods sold	-80.7	-88.5	-163.6	-124.9	-123.0	-124.2
<b>Gross margin</b>	<b>38.0</b>	<b>74.1</b>	<b>272.2</b>	<b>267.2</b>	<b>261.7</b>	<b>265.1</b>
Operating costs	-38.5	-63.8	-248.0	-242.9	-234.5	-235.7
<b>EBITDA</b>	<b>-0.4</b>	<b>10.3</b>	<b>24.2</b>	<b>24.4</b>	<b>27.2</b>	<b>29.5</b>
% inc.	-90.6	n.a.	135.2	0.6	11.5	8.4
Depreciation	-1.4	-3.8	-5.9	-6.9	-7.3	-7.9
<b>EBIT</b>	<b>-1.9</b>	<b>6.5</b>	<b>18.4</b>	<b>17.5</b>	<b>19.9</b>	<b>21.5</b>
% inc.	-75.1	n.a.	183.0	-4.7	13.7	8.1
Net financial result	-1.6	-2.1	-5.6	-3.9	-4.0	-3.2
Equity accounted earnings	0.0	0.0	0.0	0.0	0.0	0.0
Other results	7.5	-2.2	-0.4	-0.4	-0.4	-0.4
<b>Profit before taxes</b>	<b>4.0</b>	<b>2.2</b>	<b>12.3</b>	<b>13.2</b>	<b>15.5</b>	<b>17.9</b>
Corporate tax	-0.7	5.3	2.1	0.0	0.0	-3.7
Minority interests	0.0	-0.1	-0.2	0.0	0.0	0.0
<b>Net group profit</b>	<b>3.3</b>	<b>7.4</b>	<b>14.2</b>	<b>13.2</b>	<b>15.5</b>	<b>14.1</b>
% inc.	n.a.	122.4	93.7	-7.5	17.7	-8.9
EPS (€)	0.09	0.16	0.23	0.19	0.22	0.20
% inc.	n.a.	82.1	40.5	-18.0	17.7	-8.9
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
% inc.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Cash flow statement</b>						
Net cash flow	4.7	11.2	20.1	20.0	22.8	22.1
% inc.	n.a.	135.5	80.0	-0.3	13.7	-3.1
OWC change	-17.3	-0.6	-38.0	-18.1	0.0	0.4
Capex	-28.8	-100.0	-6.9	-7.5	-6.5	-7.0
Free cash flow	-41.4	-89.5	-24.8	-5.6	16.3	15.4
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Other debt variations	-9.9	-84.0	-9.6	3.2	0.0	0.0
<b>Balance sheet</b>						
Net fixed assets	63.3	133.1	160.6	163.6	162.8	161.9
Net financial assets	9.3	10.2	1.2	2.5	2.5	2.5
Operating working capital (OWC)	36.3	36.9	74.9	93.0	93.0	92.6
Other assets/(liabilities) net	-8.3	-14.4	-18.3	-19.9	-19.9	-19.9
<b>Capital employed (CE)</b>	<b>100.6</b>	<b>165.8</b>	<b>218.5</b>	<b>239.2</b>	<b>238.4</b>	<b>237.1</b>
Shareholders' equity	72.4	130.4	170.9	182.5	198.0	212.1
Minority interests	2.0	3.7	0.8	1.1	1.1	1.1
Net financial debt	26.2	31.7	46.8	55.6	39.3	23.8
<b>Margins (%)</b>						
Gross margin/Sales	32.0	45.6	62.5	68.2	68.0	68.1
EBITDA/Sales	-0.4	6.3	5.6	6.2	7.1	7.6
EBIT/Sales	-1.6	4.0	4.2	4.5	5.2	5.5
Sales/Capital employed	118.0	98.1	199.5	163.9	161.4	164.2
EBITDA/Capital employed	-0.4	6.2	11.1	10.2	11.4	12.4
ROCE	-1.8	3.9	8.4	7.3	8.4	9.1
ROE	4.6	5.6	8.3	7.2	7.8	6.7
<b>Gearing (x)</b>						
Net financial debt/Capital employed	0.3	0.2	0.2	0.2	0.2	0.1
Net financial debt/EBITDA	-61.7	3.1	1.9	2.3	1.4	0.8
EBIT/Net financial result	-1.1	3.1	3.3	4.5	5.0	6.7
Number of employees	1,257	4,760	4,916	4,996	4,996	5,046

Tecocom and ACF Research

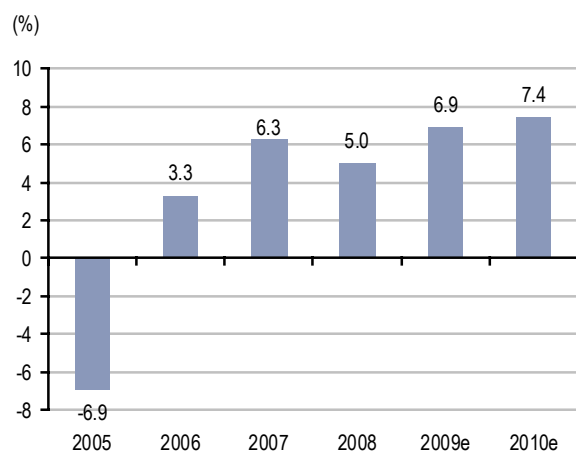
**Market multiple trends**

(€)	2006	2007	2008	2009e	2010e	2011e
EPS (€)	0.09	0.16	0.23	0.19	0.22	0.20
% inc.	n.a.	82.1	40.5	-18.0	17.7	-8.9
CFPS (€)	0.13	0.25	0.32	0.29	0.33	0.32
% inc.	n.a.	92.8	30.6	-11.6	13.7	-3.1
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
% inc.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BVPS (€)	1.74	2.37	2.76	2.43	2.64	2.83
% inc.	64.4	36.5	16.1	-11.8	8.5	7.1
ROE (%)	4.6	5.6	8.3	7.2	7.8	6.7
<b>Price (€)</b>						
Max.	5.6	6.4	4.0	3.8	-	-
Min.	2.5	3.5	2.6	2.8	-	-
Last	5.0	3.5	3.5	2.9	2.9	2.9
<b>Number of shares (Mn)</b>						
Weighted average	36.8	45.0	62.0	69.9	69.9	69.9
Year-end	41.6	55.0	62.0	75.0	75.0	75.0
<b>Market cap. (Mn€)</b>						
Average	183.2	159.0	217.0	205.5	205.5	205.5
Year-end	207.1	194.3	217.0	220.6	220.6	220.6
<b>P/E (x)</b>						
Max.	62.4	38.9	17.3	20.4	-	-
Min.	28.0	21.2	11.1	15.1	-	-
Last	55.4	21.6	15.2	15.6	13.3	14.5
Relative	2.0	0.8	0.6	0.6	0.5	0.5
<b>P/CF (x)</b>						
Max.	43.5	25.7	12.3	13.4	-	-
Min.	19.5	14.0	7.9	9.9	-	-
Last	38.7	14.2	10.8	10.3	9.0	9.3
Relative	2.3	0.8	0.6	0.6	0.5	0.5
<b>Yield (%)</b>						
Max.	0.0	0.0	0.0	0.0	-	-
Min.	0.0	0.0	0.0	0.0	-	-
Last	0.0	0.0	0.0	0.0	0.0	0.0
Relative	0.0	0.0	0.0	0.0	0.0	0.0
<b>P/BV (x)</b>						
Max.	3.2	2.7	1.4	1.6	-	-
Min.	1.4	1.5	0.9	1.2	-	-
Last	2.9	1.5	1.3	1.2	1.1	1.0
Relative	1.8	1.0	0.8	0.8	0.7	0.7
<b>Volatility</b>						
10 d.	27.3	37.1	36.1	17.0	-	-
30 d.	31.7	78.1	50.4	20.8	-	-
60 d.	34.5	56.7	53.9	21.5	-	-
90 d.	34.7	48.9	47.1	30.3	-	-
180 d.	45.0	46.3	37.7	32.3	-	-
200 d.	44.5	44.9	37.2	31.6	-	-
360 d.	38.2	41.6	42.7	35.5	-	-

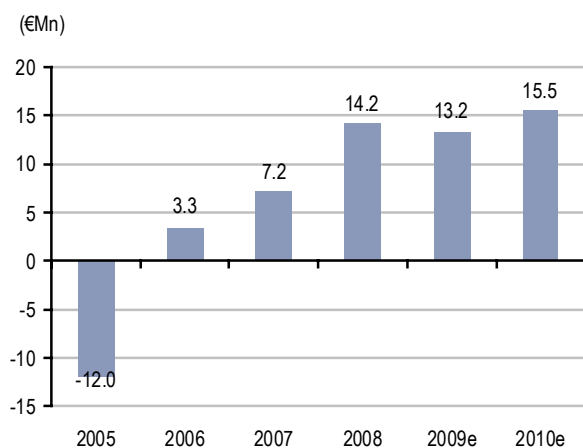
Tecnocom and ACF Research

**Sales breakdown by geographic area (2009e)**


Source: Tecnomcom and ACF Research

**EBITDA margin evolution (2005-2010e)**


Source: ACF & company

**Net profit evolution (2005-2010e)**


Source: Tecnomcom and ACF Research

**Main shareholders**

Corporación Caixa Galicia: 18.4%  
Ladislao de Arriba: 13.2%  
Getronics: 11.0%

Source: CNMV

**Main shareholdings**

Metrocall: 60.0%

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**Per share data**

	EPS (€)	DPS (€)	BVPS (€)
2000	n.a.	0.00	n.a.
2001	0.00	0.30	0.00
2002	-0.27	0.35	2.11
2003	-0.29	0.40	1.66
2004	0.07	0.46	1.53
2005	-0.37	0.00	1.06
2006	0.09	0.00	1.74
2007	0.16	0.00	2.37
2008	0.23	0.00	2.76

Tecnomcom and ACF Research

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**Upcoming events**

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