

Company Flash
Telecommunications
Germany
January 9, 2008

Teles

Reduction of target price to EUR 2.70

- We are adjusting our target price to EUR 2.70 from EUR 3.10 in order to accommodate adjustments to our 2007 earnings estimates and a lower valuation of the freenet shares held by Teles.
- We have adjusted our expectation of the profit trend. We have factored in the trends from the Q3/07 figures that were released at the end of November 2007. We are assuming slightly increased costs in the TWBI segment in 2007 and slightly lower costs in the TCS segment. In 2008 we expect a better profit trend as a result of the corporate restructuring and the acquisitions.
- Our valuation of Teles is still carried out using an SOP model in which the shares of freenet represent the most important asset. We continue to expect news relating to this asset throughout 2008. In its Q2/07 report, Teles stated that the freenet equity stake can be sold at any time. At the moment, we are applying a freenet price of EUR 17 per share for the valuation of the stake.

	2005	2006	2007e	2008e	2009e
Sales (EUR mn)	25.4	28.2	27.2	20.3	21.2
EBITDA (EUR mn)	-11.3	-16.6	-12.9	-4.9	1.1
EBIT (EUR mn)	-12.9	-17.5	-14.2	-6.4	0.0
Net income (EUR mn)	110.4	-16.9	9.0	-5.1	0.6
EPS reported (EUR)	5.27	-0.80	0.32	-0.24	0.03
DPS (EUR)	0.87	2.00	1.00	0.50	0.50
ROCE (%)	266.2	-263.0	-197.9	-77.8	0.0
P/E (x)	1.4	-5.3	11.2	-10.9	93.0
P/CF (x)	1.4	-5.1	14.0	-8.4	33.1
P/BV (x)	1.4	1.6	1.7	1.9	2.6
EV/EBITDA (x)	-3.7	-0.4	-2.0	-5.8	35.4
EV/EBIT (x)	-3.3	-0.4	-1.8	-4.5	n/a
ROCE/WACC (x)	26.4	-26.0	-19.6	-7.7	0.0
Div. yield (%)	11.6	46.8	27.5	18.9	18.9

Source: Company data, UniCredit Global Research

Hold (prev. Hold)

Price on 01/08/08	EUR 2.64
Target price (prev. EUR 3.10)	EUR 2.70
Upside to TP	2.3%
Cost of equity	10.1%
High/Low (12M)	4.99/2.43

INVESTMENT HIGHLIGHTS

Operating activities in a restructuring phase
freenet shares an important asset

STOCK TRIGGERS

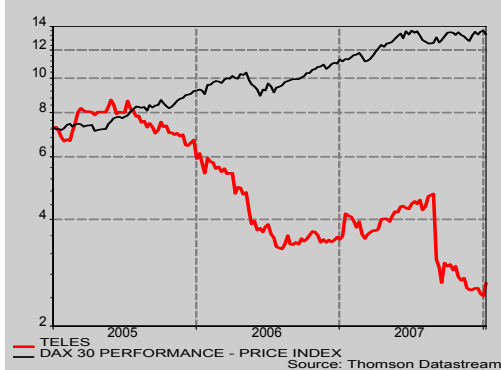
Reduction of losses
Lower costs for legal disputes

STOCK DATA

Reuters/Bloomberg	TLIG.DE/TLI GR
Average daily volume (tds.)	20.9
Free float (%)	41.7
Market capitalization (EUR bn)	0.1
No. of shares issued (mn)	21.1
Shareholders	Prof. Dr. Schindler 48.9%, Teles AG 9.3%

UPCOMING EVENTS

Annual general meeting	Aug-08
Q4	Apr-08
Q1	May-08



RELATIVE PERFORMANCE (% CHG.)

	1M	3M	6M
DAX	2.6	-11.0	-3.2
DJES50	4.2	-9.4	-0.6
ES Tech.	11.1	0.8	4.5

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Acquisition of Softswitch technology

On October 4, Teles announced its acquisition of the partial business operations of another company that handles the development, manufacture and sale of "Class 5 Softswitch solutions." An amount in the lower single-digit EUR million range was mentioned as a purchase price. We see the acquisition as a sensible extension of the TCS segment (telco equipment), which has long been geared towards the Next Generation Products (NGN). The sale was closed on December 20.

Sale of SkyDSL Business

On January 3, Teles announced its intention to sell the satellite DSL business to a Swiss company. This strategic step was in principal reported with the intention not to continue the satellite DSL business, which was announced on September 24, 2007.

Adjustment of estimates

We have adjusted our estimates to consider the impact of the Q3/07 results that were published on November 30, 2007. We expect a slightly more negative EBITDA in 2007. Our EBITDA forecast for 2008 remains stable; our sales estimate was slightly increased due to the favorable revenue trend in the continuing business of Teles in the third quarter. The 2007 EPS is positively impacted by the dividend payment of freenet.

ESTIMATE CHANGES

		2007e prev.	2007e new	2008e prev.	2008e new
Sales	EUR mn	24.5	27.2	15.2	20.3
y-o-y	%	-13.1	-3.4	-38.2	-25.4
EBITDA	EUR mn	-11.2	-12.9	-4.9	-4.9
EBITDA margin	%	-45.8	-47.3	-32.3	-24.1
EPS	EUR	-0.47	0.32	-0.21	-0.24

Source: UniCredit Global Research

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POTENTIAL CONFLICTS OF INTERESTS

Company	Key
Teles	3

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Company	Date	Rating	Currency	Target price
Teles	10/08/2007	Hold	EUR	3.10
Teles	09/05/2007	Hold	EUR	3.00
Teles	07/06/2007	Buy	EUR	5.20
Teles	04/04/2007	Buy	EUR	4.40

Overview of our ratings

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We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):

A **Buy** is applied when the expected total return over the next twelve months is higher than the stock's cost of equity.

A **Hold** is applied when the expected total return over the next twelve months is lower than its cost of equity but higher than zero.

A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

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Instrument level:

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