

# Electronics Line 3000 Ltd.

September 12, 2012



## Information analysis

### Analysts

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### Evaluation result

**BUY**

(previous BUY)

### Fair value

**€ 1.90**

(previous € 1.45)

## Q2 figures boost half year result

In the first half of 2012, Electronics Line 3000 has successfully implemented the strategy to focus its marketing and selling activities on newly developed high-margin products such as the iConnect or CommPact series (launched in April 2012 and Q3 2011, respectively). The Company also has cut its operating expenses by outsourcing the production to Chinese subcontractors and to its major shareholder RISCO. In addition, the cost structure has been streamlined through using administrative services from RISCO.

- Revenues at \$ 8.8 Mill. (+7,3%, adjusted, yoy); increase due to a very strong second quarter which has overcompensated the weak Q1 sales
- By yoy comparison
  - Gross margin exploded by 20.4 ppts. to 44.8%
  - Turnaround on operating level
    - EBIT improved from \$ -161k (adjusted) to \$ +2.0 Mill.
    - Net income of \$ 1.9 Mill. exceeded our expectations
- Liquid funds at period end: \$ 1.1 Mill. incl. restricted deposit of \$ 200k
- Inventories were built up by a factor of ca. 4.5 to \$ 3.1 Mill.
- Sales guidance for 2012 remains at \$ 20 Mill.

The basis for the positive results was paved in the second quarter where 63.4% of the revenues, 93.5% of the operating income and 95.9% of net income during H1 were generated. This performance was driven by the introduction of the iConnect Two-Way this April, the aforementioned outsourcing activities as well as an extended sales division with three additional managers. The Company also reduced its outstanding bank loans with the sales proceeds from the divestiture of the UK subsidiary in November 2011, resulting in lower interest expenses and higher EBIT and net profit margins. In addition, other income from the termination of a lease agreement had a positive onetime effect of about \$ 404k contributing 20.1% to operating income.

In order to gain more flexibility in answering customer demand, Electronics Line has increased the inventory stock, which we expect to remain on a constant level in 2012.

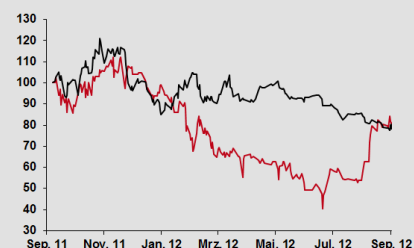
**We have adjusted our DCF as well as our multiple analysis and calculate a fair value of € 1.90. We re-iterate our Buy rating.**

### Key data / Earnings

Year	Sales (Mill. €)	EBITDA (Mill. €)	EBIT (Mill. €)	EBT (Mill. €)	adj. net (Mill. €)	adj. EPS (€)	EBIT- Margin	Net- Margin
2010a	26.7	-1.8	-5.0	-5.3	-5.9	-0.54	-18.6%	-21.9%
2011a	24.2	2.0	1.5	2.4	1.1	0.08	6.3%	9.7%
2012e	20.0	4.1	3.9	3.8	2.9	0.21	19.6%	14.3%
2013e	23.9	4.8	4.6	4.5	3.4	0.25	19.3%	14.2%
2014e	26.5	5.5	5.3	5.2	3.9	0.29	20.1%	14.8%
2015e	28.6	5.9	5.7	5.6	4.2	0.31	19.9%	14.7%

Source: BankM Research

Sector	Communication Technol.		
<b>WKN</b>	A0B5R7		
<b>ISIN</b>	IL0010905052		
<b>Bloomberg/Reuters</b>	ELN GY/ E28.DE		
<b>Accounting standard</b>	IFRS		
<b>Financial year</b>	Dec 31		
<b>Financial reporting Q3 / 2012</b>	Nov. 30, 2012		
<b>Market segment</b>	Regulated Market		
<b>Transparency standard</b>	Prime Standard		
<b>Financial ratios</b>	2012e	2013e	2014e
EV/Sales	0.8	0.7	0.6
EV/EBITDA	3.9	3.3	2.9
EV/EBIT	4.1	3.5	3.0
P/E adj.	4.4	3.7	3.2
Price/Bookvalue	2.3	1.4	1.0
Price/FCF	neg.	4.6	3.6
ROE	53.7%	38.9%	31.0%
Dividend yield	0.0%	0.0%	0.0%
<b>Number of shares</b>	13,713		
(million)			
<b>MarketCap / EV</b>	12.79 / 16.85		
(million €)			
<b>Free float</b>	40.5%		
<b>Ø daily trading vol.</b>	2.992		
(3M, in T€)			
<b>12 months high/low</b>	€ 1.25 / 0.45		
(XETRA-close)			
<b>Price September 11, 2012</b>	€ 0.89		
(XETRA-close)			
<b>Performance</b>	1M	6M	12M
absolute	26.4%	18.0%	-22.0%
relative	28.5%	23.9%	-8.1%
<b>Benchmark index</b>	DaxSubsec. Comm. Tech.		



Electronics Line 3000 (red/grey), Performance 1 year vs. DAX Subsector All Communications Technology (black)

Source: Bloomberg

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## Electronics Line's Stock

Year-to-date, ELN's stock came down by 15.3% from € 1.05 (XETRA close Jan 2, 2012) to € 0.89 (XETRA close September 11, 2012) and fell behind the performance (-9.9%) of the benchmark (Daxsubsec. All Communications Technology). Based on daily stock price returns since beginning of the year, the annualized volatility is at 79.6% with a mean daily trading volume of ca. 4,770 pieces. On June 26, the share reached its lowest price of the year with € 0.45; since then the stock recovered by almost doubling to € 0.89.

**Based on the H1 results, we have adjusted our DCF analysis and updated our multiple valuation. We arrive at a current fair value of € 1.90 and reiterate our "Buy" rating. With a prevailing PE of 4.36 (based on our earnings forecast 2012 of € 0.21/share), we perceive the stock favorably valued considering the peer group's median P/E of almost 11.93.**

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# Electronics Line 3000 Ltd.

September 12, 2012

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## Tables

### Profit & Loss Account

Fiscal Year 31.12 (IFRS) in T\$	2011a	2012e	2013e	2014e	2015e	11a	12e	13e	14e	15e	5y - CAGR
						y-o-y changes in %					
<b>Total Sales</b>	<b>24,164.0</b>	<b>20,000.0</b>	<b>23,900.0</b>	<b>26,490.0</b>	<b>28,609.2</b>	<b>-9.6</b>	<b>-17.2</b>	<b>19.5</b>	<b>10.8</b>	<b>8.0</b>	<b>1.4</b>
Cost of sales	15,745.0	11,000.0	12,667.0	13,774.8	14,876.8	-14.1	-30.1	15.2	8.7	8.0	-4.1
<i>in % of total sales</i>	65.2	55.0	53.0	52.0	52.0						
<b>Gross Profit</b>	<b>8,419.0</b>	<b>9,000.0</b>	<b>11,233.0</b>	<b>12,715.2</b>	<b>13,732.4</b>	<b>0.5</b>	<b>6.9</b>	<b>24.8</b>	<b>13.2</b>	<b>8.0</b>	<b>10.4</b>
<i>in % of total sales</i>	34.8	45.0	47.0	48.0	48.0						
Selling and marketing expenses	2,878.0	2,482.1	3,085.6	3,552.4	3,979.6	-25.1	-13.8	24.3	15.1	12.0	0.7
<i>in % of total sales</i>	11.9	12.4	12.9	13.4	13.9						
General and administration expenses	1,977.0	1,576.3	1,812.0	1,928.9	1,997.4	-37.6	-20.3	15.0	6.5	3.6	-8.8
<i>in % of total sales</i>	8.2	7.9	7.6	7.3	7.0						
R&D expenses	1,733.0	1,434.4	1,714.1	1,899.8	2,051.8	-8.0	-17.2	19.5	10.8	8.0	1.7
<i>in % of total sales</i>	7.2	7.2	7.2	7.2	7.2						
Other income	0.0	404.0	0.0	0.0	0.0						
Other expenses	315.0	0.0	0.0	0.0	0.0						
<b>EBIT</b>	<b>1,516.0</b>	<b>3,911.3</b>	<b>4,621.4</b>	<b>5,334.1</b>	<b>5,703.6</b>	<b>n.a.</b>	<b>158.0</b>	<b>18.2</b>	<b>15.4</b>	<b>6.9</b>	<b>39.3</b>
<i>in % of total sales</i>	6.3	19.6	19.3	20.1	19.9						
Interest income	51.0	0.0	0.0	0.0	0.0						
Interest expense	405.0	92.0	92.0	92.0	92.0						
Gain from sale of subsidiary	1,224.0	0.0	0.0	0.0	0.0						
<b>EBT</b>	<b>2,386.0</b>	<b>3,819.3</b>	<b>4,529.4</b>	<b>5,242.1</b>	<b>5,611.6</b>	<b>n.a.</b>	<b>60.1</b>	<b>18.6</b>	<b>15.7</b>	<b>7.0</b>	<b>23.8</b>
<i>in % of total sales</i>	9.9	19.1	19.0	19.8	19.6						
Taxes on Income (Exp.+/Inc.-)	54.0	954.8	1,132.3	1,310.5	1,402.9						
<i>t/o current income tax (Exp.+/Inc.-)</i>	88.0	0.0	0.0	0.0	0.0						
<i>t/o deferred taxes (Exp.+/Inc.-)</i>	-34.0	954.8	1,132.3	1,310.5	1,402.9						
<b>Net profit</b>	<b>2,332.0</b>	<b>2,864.4</b>	<b>3,397.0</b>	<b>3,931.6</b>	<b>4,208.7</b>	<b>n.a.</b>	<b>22.8</b>	<b>18.6</b>	<b>15.7</b>	<b>7.0</b>	<b>15.9</b>
<i>in % of total sales</i>	9.7	14.3	14.2	14.8	14.7						
Adjustements	-1,224.0	0.0	0.0	0.0	0.0						
<b>Adjusted net profit</b>	<b>1,108.0</b>	<b>2,864.4</b>	<b>3,397.0</b>	<b>3,931.6</b>	<b>4,208.7</b>	<b>n.a.</b>	<b>158.5</b>	<b>18.6</b>	<b>15.7</b>	<b>7.0</b>	<b>39.6</b>
<i>in % of total sales</i>	4.6	14.3	14.2	14.8	14.7						
<i>For information purposes</i>											
Depreciation and amortization	480.0	219.0	215.7	213.0	210.9	-84.8	-54.4	-1.5	-1.2	-1.0	-41.8
<i>in % of total sales</i>	0.0	0.0	0.0	0.0	0.0						
<b>EBITDA</b>	<b>1,996.0</b>	<b>4,130.3</b>	<b>4,837.1</b>	<b>5,547.1</b>	<b>5,914.5</b>	<b>-210.3</b>	<b>106.9</b>	<b>17.1</b>	<b>14.7</b>	<b>6.6</b>	<b>31.2</b>
No. of shares (Ø outstanding)	13,713	13,713	13,713	13,713	13,713						
Net profit / share (EPS)	0.17	0.21	0.25	0.29	0.31						
Adj. net profit / share (adj. EPS)	0.08	0.21	0.25	0.29	0.31						

Source: BankM Research

### Cash Flow Statement

Fiscal Year 31.12 (IFRS) in T\$	2011a	2012e	2013e	2014e	2015e	11a	12e	13e	14e	15e	5y - CAGR
						y-o-y changes in %					
<b>Net profit</b>	<b>2,332.0</b>	<b>2,864.4</b>	<b>3,397.0</b>	<b>3,931.6</b>	<b>4,208.7</b>	<b>n.a.</b>	<b>22.8</b>	<b>18.6</b>	<b>15.7</b>	<b>7.0</b>	<b>15.9</b>
+ Depreciation and amortization	480.0	219.0	215.7	213.0	210.9	-84.8	-54.4	-1.5	-1.2	-1.0	-41.8
+ Chg. in long-term provisions	-99.0	0.0	0.0	0.0	0.0	n.a.	-100.0	n.a.	n.a.	n.a.	-100.0
<b>= Cash Earnings</b>	<b>2,713.0</b>	<b>3,083.4</b>	<b>3,612.7</b>	<b>4,144.6</b>	<b>4,419.6</b>	<b>n.a.</b>	<b>13.7</b>	<b>17.2</b>	<b>14.7</b>	<b>6.6</b>	<b>13.0</b>
+ Other non-cash items (deferred tax)	2,790.0	-954.8	-1,132.3	-1,310.5	-1,402.9						
- Chg. in net working capital	144.0	3,063.3	722.9	480.1	392.8						
- def. taxes from carry forward losses	34.0	-954.8	-1,132.3	-1,310.5	-1,402.9						
<b>= Operating Cash Flow</b>	<b>-255.0</b>	<b>20.1</b>	<b>2,889.8</b>	<b>3,664.5</b>	<b>4,026.8</b>	<b>n.a.</b>	<b>n.a.</b>	<b>14250.7</b>	<b>26.8</b>	<b>9.9</b>	<b>n.a.</b>
- Capex	-1,838.0	430.0	150.0	150.0	150.0	n.a.	-123.4	-65.1	0.0	0.0	-1.2
<b>= Free Cash Flow</b>	<b>1,583.0</b>	<b>-409.9</b>	<b>2,739.8</b>	<b>3,514.5</b>	<b>3,876.8</b>	<b>n.a.</b>	<b>-125.9</b>	<b>-768.5</b>	<b>28.3</b>	<b>10.3</b>	<b>25.1</b>
+ Other net items	-8.0	0.0	0.0	0.0	0.0						
+ Bank loans	-871.0	-621.0	0.0	0.0	0.0						
<b>= Incr. in Cash (+)/Decr. in Cash (-)</b>	<b>704.0</b>	<b>-1,030.9</b>	<b>2,739.8</b>	<b>3,514.5</b>	<b>3,876.8</b>	<b>n.a.</b>	<b>-246.4</b>	<b>-365.8</b>	<b>28.3</b>	<b>10.3</b>	<b>53.2</b>

Source: BankM Research

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# Electronics Line 3000 Ltd.

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## Balance Sheet

Fiscal Year 31.12 (IFRS) in T\$	2011a	2012e	2013e	2014e	2015e	11a	12e	13e	14e	15e
<b>Assets</b>						<b>In % of Balance Sheet Total</b>				
Tangible assets	524.0	471.6	419.2	366.8	314.4	14.2	6.1	4.8	3.1	2.0
Intangible assets	403.0	666.4	653.1	642.5	634.0	3.6	4.7	6.8	4.8	3.6
Deferred tax	483.0	0.0	0.0	0.0	0.0	1.5	5.7	0.0	0.0	0.0
Other fixed assets	80.0	97.0	97.0	97.0	97.0	0.7	0.9	1.0	0.7	0.5
<b>Total Fixed Assets</b>	<b>1,490.0</b>	<b>1,235.0</b>	<b>1,169.3</b>	<b>1,106.3</b>	<b>1,045.4</b>	<b>20.0</b>	<b>17.5</b>	<b>12.6</b>	<b>8.6</b>	<b>6.2</b>
Inventories	1,423.0	3,100.0	3,704.5	4,106.0	4,434.4	39.2	16.7	31.6	27.1	22.9
Accounts receivable	2,017.0	2,921.5	3,491.2	3,869.5	4,179.1	21.2	23.6	29.7	25.5	21.6
Total liquid funds	1,687.0	656.1	3,395.9	6,910.4	10,787.2	7.0	19.8	6.7	24.8	38.6
Other current assets	1,912.0	1,912.0	1,912.0	1,912.0	1,912.0	12.6	22.4	19.5	14.0	10.7
<b>Total Current Assets</b>	<b>7,039.0</b>	<b>8,589.6</b>	<b>12,503.6</b>	<b>16,797.9</b>	<b>21,312.7</b>	<b>80.0</b>	<b>82.5</b>	<b>87.4</b>	<b>91.4</b>	<b>93.8</b>
<b>Balance Sheet Total</b>	<b>8,529.0</b>	<b>9,824.6</b>	<b>13,672.9</b>	<b>17,904.2</b>	<b>22,358.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Shareholder's Equity / Liabilities</b>										
Subscribed capital	15,933.0	15,933.0	15,933.0	15,933.0	15,933.0	186.8	162.2	116.5	89.0	71.3
Share premium	6,474.0	6,474.0	6,474.0	6,474.0	6,474.0	75.9	65.9	47.3	36.2	29.0
Retained earnings and other reserves	-19,936.0	-17,071.6	-13,674.5	-9,742.9	-5,534.2	-233.7	-173.8	-100.0	-54.4	-24.8
<b>Shareholders Equity</b>	<b>2,471.0</b>	<b>5,335.4</b>	<b>8,732.5</b>	<b>12,664.1</b>	<b>16,872.8</b>	<b>29.0</b>	<b>54.3</b>	<b>63.9</b>	<b>70.7</b>	<b>75.5</b>
<b>Long term liabilities</b>	<b>1,093.0</b>	<b>936.0</b>	<b>951.4</b>	<b>968.3</b>	<b>987.0</b>	<b>12.8</b>	<b>9.5</b>	<b>7.0</b>	<b>5.4</b>	<b>4.4</b>
<i>t/o Provisions</i>	140.0	154.0	169.4	186.3	205.0					
<i>t/o Pension provisions</i>	140.0	154.0	169.4	186.3	205.0	1.6	1.6	1.2	1.0	0.9
<i>t/o Interest bearing</i>	527.0	356.0	356.0	356.0	356.0	6.2	3.6	2.6	2.0	1.6
<i>t/o Other liabilities</i>	426.0	426.0	426.0	426.0	426.0	5.0	4.3	3.1	2.4	1.9
<b>ST Liab. &lt; 1 year</b>	<b>4,965.0</b>	<b>3,553.2</b>	<b>3,989.0</b>	<b>4,271.8</b>	<b>4,498.4</b>	<b>58.2</b>	<b>36.2</b>	<b>29.2</b>	<b>23.9</b>	<b>20.1</b>
<i>t/o Acc. payable &amp; pre-paymts.</i>	2,796.0	2,314.2	2,765.5	3,065.1	3,310.4	32.8	23.6	20.2	17.1	14.8
<i>t/o Bank loans</i>	1,244.0	794.0	794.0	794.0	794.0	14.6	8.1	5.8	4.4	3.6
<i>t/o other current liabilities</i>	925.0	445.0	429.6	412.7	394.0	10.8	4.5	3.1	2.3	1.8
<b>Total Liabilities</b>	<b>6,058.0</b>	<b>4,489.2</b>	<b>4,940.4</b>	<b>5,240.1</b>	<b>5,485.3</b>	<b>71.0</b>	<b>45.7</b>	<b>36.1</b>	<b>29.3</b>	<b>24.5</b>
<b>Balance Sheet Total</b>	<b>8,529.0</b>	<b>9,824.6</b>	<b>13,672.9</b>	<b>17,904.2</b>	<b>22,358.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: BankM Research

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Important information, disclosures and disclaimer - 5/7 -

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**Authors: Dr. Roger Becker, CEFA and David Szabadvari, Dipl. Volkswirt**

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Issuer of the analyzed instrument is Electronics Line 3000 Ltd..

Notice according to sec. 4 §. 4 N<sup>o</sup> 4 FinAnV (previous publications regarding the issuer at least within the last 12 months):

Analyst	Date	Evaluation result	Fair value
Dr. Roger Becker	August 17, 2011	Neutral	€1.46
Dr. Roger Becker	August 29, 2011	Neutral	€1.46
Dr. Roger Becker	November 22, 2011	Buy	€1.56
Dr. Roger Becker, David Szabadvari	April 12, 2012	Buy	€1.45

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#### 1. Sources of information:

Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication according to DVFA Standards to ensure the accuracy of the information provided. This resulted in no textual changes.

#### 2. Summary of the valuation principles and methods used to prepare this document:

BankM – Repräsentanz der biw Bank für Investments und Wertpapiere AG uses a 3-tier absolute rating model. The ratings are the evaluation results and refer to a fair value pricing reflecting a time-horizon of up to 12 months.

**BUY:** The calculated fair value of the company's stock is at least 15 % higher than the current market price at the time of the compilation of this document.

**NEUTRAL:** The calculated fair value of the company's stock lies between -15% and +15 % of the current market price at the time of the compilation of this document.

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#### 3. Date of first publication of this document:

**September 12, 2012**

#### 4. Date and time of prices of the instruments quoted in this document:

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# Electronics Line 3000 Ltd.

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