

Ericsson Nikola Tesla

April 29 2008

ICT sector
Hold
1Q08 financial results; sales up by 31% y/y

 Target price HRK 2,817
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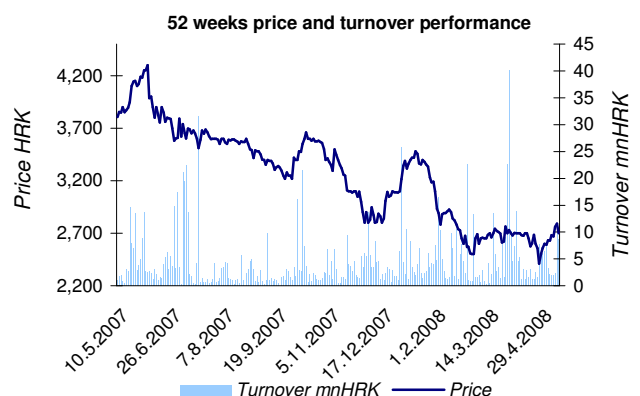
Share price(HRK)	2.790,00	Reuters	ERNT.ZA	Free float: 32,18%
Number of shares(mn)	1,332	Bloomberg	ERNTRA CZ	Shareholders:
Market cap.(HRK/EUR mn)	3,715.3 / 511.8	Target price(HRK)	2.817,00	Telefonaktiebolaget LM Ericsson (49.07%)
Enterprise value (HRK/EUR mn)	3,443.0 / 474.3	Ex - dividend date	-	Raiffeisen mandatory pension fund (4.36%)
Avrg. daily turnover(HRK/EURmn)	4.39 / 0.60	Index weight	6.38%	Homepage: http://www.ericsson.com/hr

The Croatian ICT company announced 1Q08 results and reported a 31% y/y growth in sales to HRK 381mn. This strong y/y growth is mostly a result of the very low base in 1Q07 (the weakest quarter in the last few years). Despite strong y/y growth in sales, net profit dropped by 35% y/y due to two factors: firstly, 52% y/y increase in COGS and secondly, a total of HRK 21.5mn in forex losses (around 5.6% in sales). Decline in profit items brought further sliding of both net profit margin and EBIT margin, while EDITDA margin remained almost unchanged at 13.7%. Dollar depreciation still remains a heavy burden to the bottom line, which deflated the net profit by HRK 21.5mn. The company performed well in most of its markets, posting almost 50% y/y growth in the CIS market, 22% y/y growth on the domestic market and 6.2% y/y growth on the internal market. Nevertheless, one should bare in mind the low base in 1Q07. Regional market growth is still mostly driven by Kosovo, which accounts for 56% of regional sales, while the downturn in Bosnia-Herzegovina and Montenegro is expected to reverse in the second half of the year. We find this result mostly in line with our expectations although we did not expect to see such large forex loses. A positive surprise is the sales growth in CIS markets, although overall revenues compared to average quarterly sales has deteriorated.

The major price mover in the upcoming period will continue to be dividend payment (HRK 270 per share, current DY: ~10%), which should be approved on AGM scheduled for May 27, where we do not expect any objections to this payout. We stick with our hold recommendation and suggest holding the stock until we find a strong base which will point out if company will get off the track of margins FY2008 expectations, however this quarter is not a good signal on a direction where company will go.

HRK mn	2005	2006	2007	1Q08
Net sales	1,624.52	1,634.14	1,781.49	1,871.08
EBITDA	252.03	276.13	240.17	236.01
EBIT	198.12	202.85	156.48	152.08
<u>Net profit</u>	<u>235.69</u>	<u>233.77</u>	<u>199.80</u>	<u>187.41</u>
EPS (HRK)	176.99	175.55	150.04	140.74
CEPS (HRK)	217.47	230.59	212.88	203.76
BVPS (HRK)	1,119.33	1,180.86	987.97	996.55
EV/EBITDA	11.82	10.69	13.83	13.50
EV/EBIT	15.04	14.55	21.23	20.95
P/E	15.25	15.37	17.99	1.70
P/B	2.41	2.29	2.73	19.18
P/S	2.21	2.20	2.02	2.71
P/CE	12.41	11.70	12.68	1.92
EBIT margin	12.20%	12.41%	8.78%	8.13%
EBITDA margin	15.51%	16.90%	13.48%	12.61%
Net margin	14.51%	14.31%	11.22%	10.02%
ROA	13.17%	12.16%	10.87%	10.95%
ROE	17.03%	15.26%	13.84%	14.12%

Performance	12M	6M	3M	1M
in HRK	-29.1%	-22.9%	-6.6%	0.0%
in EUR	0.0%	-22.0%	-6.3%	-0.1%



* financial ratios are calculated based on one-year trailing financial reports

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1Q08 Profit and loss account

REVENUE	1Q07	1Q08	y/y change
Revenues	291,539	380,829	30.63%
Sales revenue in country	116,215	141,867	22.07%
Sales revenue outside country	168,496	232,435	37.95%
Other operational revenues	6,828	6,527	-4.41%
Financial revenues	19,226	18,804	-2.19%
Positive exchange rate differences	1,559	-	-
Interests and other financial revenues	17,667	18,804	6.44%
Extraordinary income	0	0	
TOTAL INCOME	310,765	399,633	28.60%
EXPENSES			
Changes in inventories	4,991	-5,822	-216.65%
Expenses	261,736	355,426	35.80%
Operating charges and costs of sold goods	156,757	238,263	52.00%
Expenses for employees	84,150	95,714	13.74%
Depreciation	19,716	19,954	1.21%
Revalorization and reserves	723	802	10.93%
Other operational expenses	390	693	77.69%
Financial expenses	11	21,480	-
Foreign currency exchange rates	0	21,480	-
Interests and other similar costs	11	0	-
Extraordinary expenses	0	0	-
TOTAL EXPENSES	266,738	371,084	39.12%
PROFIT OR LOSS			
Profit or loss before taxation	44,027	28,549	-35.16%
Income tax	8,805	5,710	-35.15%
Profit or loss after taxation	35,222	22,839	-35.16%
Minority interests			-
Net profit or loss	35,222	22,839	-35.16%

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