

First Impression

April 29, 2010

IT/Technology/Croatia

Ericsson Nikola Tesla

Last recommend.: Hold

Last price target	1,563.00
Close (28.04.2010)	1,699.34
Market Cap. (EUR mn)	312
Free float	41.0%
Reuters	ERNT.ZA
Bloomberg	ERNTRA CZ

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Published by: Raiffeisen Centrobank,
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Disclosures: www.rcb.at
Supervisory authority: Financial Market
Authority

Improved operational efficiency

- Sales in line with expectations
- Operating profitability improved yoy, qoq and compared with our estimates
- We maintain our target price, but intend to downgrade the recommendation

Posted sales were in line with our estimates and slightly higher yoy. The main growth driver was the CIS market, whereas domestic market revenues recorded a yoy drop due to HT's lower investments and ongoing negotiations with Tele2. The main deviation from our estimates refers to EBIT and financial result. Although reported EBT was pretty close to our forecasts, due to absence of tax expenses, the bottom line was higher than we had reckoned.

Sales: As already mentioned, CIS markets were the main growth driver (+112.7% yoy), but also Ericsson's internal market revenues increased by 7.3% yoy. On the other hand, the domestic market recorded a drop of 27.8% yoy, mainly as a result of HT's decision to stop investments into a new optic fibre access network. Moreover, there were no new orders from Tele2 due to the ongoing negotiations on the extension of the existing frame agreement.

Margins: Realized gross margin was higher than we expected due to favourable product mix changes and improved efficiency. Additionally, SG&A expenses were 35% yoy lower and 11.5% below our expectations, which is the reason for the large discrepancy between the posted and the operating profit we forecasted. The financial result is much lower than we reckoned, at HRK 5.6 mn (HRK 42.2 mn in 1Q 09), due to decreased FX income, release of impairment reserves as well as interest income. Although reported EBT was pretty close to our forecasts, because of the absence of tax expenses, the bottom line was higher than we reckoned.

Outlook and recommendation: Reported to line figures do not differ much from our estimates; hence we stick to our target price. However, due to recent rally of the stock we intend to downgrade our recommendation.

Ericsson Nikola Tesla 1Q 2010 result

in HRK mn	1Q 09	1Q 10	+/- %	RCB est.	+/- %	4Q 09	+/- %
Sales	294.8	302.9	2.7	300.2	0.9	391.44	-22.6
Gross profit	44.2	50.6	14.4	42.0	20.4	72.23	-30.0
EBIT	11.6	27.9	140.8	17.3	61.1	34.73	-19.8
EBT	53.8	33.5	-37.7	35.8	-6.4	47.17	-29.0
Net profit a.m.	43.0	33.5	-22.1	28.6	17.2	48.79	-31.3
EPS	32.80	25.56	-22.1	21.82	17.2	37.22	-31.3
Gross margin	15.0%	16.7%		14.0%		18.5%	
EBIT margin	3.9%	9.2%		5.8%		8.9%	
EBT margin	18.2%	11.1%		11.9%		12.1%	
Net margin	14.6%	11.1%		9.5%		12.5%	

Source: Ericsson Nikola Tesla, Raiffeisen Centrobank

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