

*Telit Communications

Telecommunications

Solid progress

- Telit is continuing to invest in its distribution efforts and will host a distribution summit at its Trieste HQ on 16-17 June. The company will use this as the forum for attracting up to 20 distribution partners, which have access to 44 countries. Telit is also bolstering its direct distribution channels with the setting-up of representative offices in Madrid, Copenhagen and London. We understand that Telit has appointed a number of former Siemens employees in a modules sales capacity.
- Telit is close to appointing a new candidate to lead its cellular handset business in Italy. We think this appointment could speed up the timing of a potential tie-up with TIM. Telit's predecessor Italian unit used to supply TIM with handsets before it was sold to Telit in May 2004. As a result of the deal, which involved headcount reductions of over 150 people, the handset relationship with TIM was severed. We believe that negotiations to become a preferred supplier to TIM are being delayed due to the ongoing merger between Telecom Italia and TIM.
- Shares in Telit have underperformed the market by 2% in the last month and continue to trade at a discount to the IPO price of 140p. Meanwhile, shares in one of Telit's competitors have increased in value by 85% in the last three months. Wavcom, which is quoted in France, is a leader in mobile modules and supplies them for machine-to-machine applications. At the time of Telit's IPO, we used Wavcom as a benchmark for valuing Telit's modules business. We applied an EV/Sales ratio of 0.13 to Telit's modules business giving it a value of just €8m. At Wavcom's current price of €7.80, the company is trading at an EV/Sales ratio of 0.44. This marked increase in the EV/Sales ratio is justified by the fact that the company carries net cash of €54m.
- We can perform the same valuation exercise using these new ratios. The application of an EV/Sales ratio of 0.44 to our 2006 forecast of Telit's modules revenue of €58m suggests that the business is worth €25.5m. This implies an increase of €17.5m or £11.6m to our pre-money valuation of £35m. This is equivalent to 26p of incremental value per share. **BUY**

Year end December	Sales (€000s)	Pre-tax (€000s)	PAT (€000s)	PAT (£000s)	EPS (p)	P/E (x)
2004A	75,343	9,106	8,780	6,014	13.8	8.0
2005E	113,402	1,440	780	534	1.23	90.0
2006E	154,229	7,609	6,333	4,337	10.0	11.0
2007E	227,265	19,275	17,432	11,899	27.5	4.0

Source: Seymour Pierce Limited full year forecasts

*Seymour Pierce Limited acts as Broker and Nominated Adviser to Telit Communications

BUY

110.5p

AIM TCML

No of shares (m)	43.2		
Market cap (£m)	47.75		
Net cash (£m)	21.0		
Enterprise value (£m)	26.75		
(%)	1m	3m	12m
FTA relative	-2.0	na	na

12 month high/low (p) 145.5/106.5

Next news

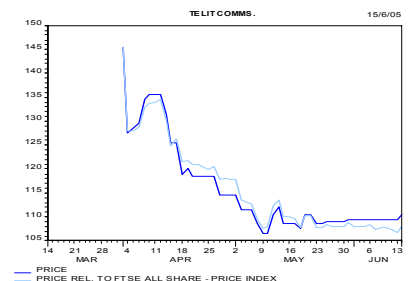
H1 results – September 2005

Business

Telecoms equipment

www.telit.com

Price and price relative (-3m)



Source : Datastream

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