

TECHNOLOGY

A Research Publication by DZ BANK AG

Alcatel-Lucent

Reuters: ALUA.PA

Bloomberg: ALU FP

Year *	Sales EUR bn	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2010	16.0 (16.0)	-0.07 (-0.07)	0.37 (0.37)	-	5.9	0.00
2011e	16.3 (16.7)	0.20 (0.22)	0.66 (0.68)	9.8	3.1	0.00
2012e	16.6 (17.4)	0.26 (0.29)	0.73 (0.76)	7.7	2.8	0.00
2013e	17.2 (18.0)	0.30 (0.36)	0.77 (0.83)	6.7	2.6	0.00

* Fiscal year end December – In brackets: Figures from the last publication

Q3 sales short of expectations once again; margin forecast for 2011 reduced

- As in the previous quarter Alcatel-Lucent failed to meet expectations for sales growth in the third quarter. However, the adjusted operating margin and net earnings were above expectations in the period under review. Negative operating Cashflow in 3Q. As expected, after 3Q the technology group reduced the outlook for the adjusted operating margin.
- As in the second quarter, once again the North American business, at EUR 1.474bn (minus 0.3% on an annualised basis (yoy), minus 5.1% based on a sequential comparison with the previous quarter) contributed the largest part of sales of EUR 3.797bn in the third quarter. However, with total revenues of about EUR 3.8bn the company fell noticeably short of the average figure expected by the market of EUR 4.0bn. This was mainly due to the weak sales in Europe, which we had not expected to be so poor.
- At 4.6%, the adjusted operating margin was approximately at consensus level, and the adjusted gross margin, at 36.3%, was 50 basis points above the gross return of the second quarter. An improved sales mix and a favourable product mix combined with further cost savings had a positive impact.
- As expected, Alcatel-Lucent has reduced the guidance for the adjusted operating margin for fiscal 2011 from greater than 5% to about 4%.

The reporting was disappointing on the whole. We have reduced our forecasts accordingly. Performance in the (negative) operating Cashflow fell short of our expectations. The weakness of the North American business poses a threat to future margin growth in 2012. Based on the valuation still a Speculative Buy at present. New Fair Value: EUR 2.10.

Selected Companies	Price on 3 Nov 2011	PER 11e 12e	EV / EBITDA 11e 12e	EV / Sales 11e	Re- com.
Alcatel-Lucent	2.01 EUR	9.8 7.7	5.1 4.0	0.55	↑
Ericsson	70.50 SEK	12.0 10.8	6.1 5.4	1.02	↑
Nokia	4.90 EUR	25.0 20.2	4.9 4.2	0.37	→
Motorola Solutions	46.56 USD	18.2 15.9	7.2 6.8	1.40	↓
Cisco Systems	18.18 USD	9.9 11.2	4.3 5.2	1.39	↑
Median for all peer group companies		15.6 12.6	6.1 5.4	1.39	-

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate
Source: DZ BANK, I/B/E/S, FactSet

EQUITIES

Flash
4 Nov 2011

Buy (prev. Buy)

Closing price 3 Nov 2011

(in EUR): 2.01
Fair value: 2.10 (prev. 3.50)

Risk classification: 5

Financial ratios 2011e:

Book value per share (in EUR):	1.73
Equity ratio (in %):	18.0
Net margin (in %):	2.8
ROE (in %):	10.1
Dividend yield (in %):	0.0
Free cash flow (EUR m):	1,168.3
Net debt (EUR m):	3,745.2

Number of shares

(million units): 2,259.9

Market cap

(in EUR bn): 4.54

Free float (in %): 95.3

SIN: 873102

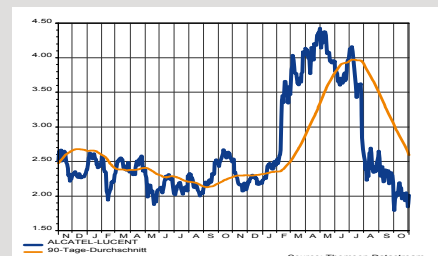
ISIN: FR0000130007

Datastream: F:CGE

Next Newsflow:

Report on 4th Quarter 2011: 10.2.2012

Report on 1st Quarter 2012: 27.4.2012



Author: Oliver Finger, Analyst

DZ BANK
Bank on Germany

AT A GLANCE

Company profile

Alcatel-Lucent is one of the leading manufacturers in the area of transfer and access systems for the telecommunications and internet market. The company offers a broad spectrum of telecommunications services in the areas voice, data and value-added services as well as integrated network solutions. The technology group was created from the merger of Alcatel S.A and Lucent Technologies in 2006.

Basis for investment recommendation

The technology group has a strong position in the area of optical and IP-based network technologies and should benefit from the expansion of the fourth mobile telephony standard LTE. In addition, the trend toward cloud computing and IP-based video and TV applications offers additional growth potential. Q3 2011 fell short of the expectations and the management has reduced the guidance for the full FY.

Price sensitive current issues

- » North America business lastly weaker than expected.
- » Product innovations drive demand in the network business.
- » Further easing of the delivery situation for components.
- » Shift in the geographical distribution of sales and a more advantageous product mix could in future also have a positive impact on the margin situation.
- » Massive increase in the volume of data to be processed is likely to ensure further revenue potential in the network business.

Opportunities and risks

Opportunities	Risks
Strong growth in streaming, video and multimedia applications	High competitive intensity
Stronger demand for broadband networks (fixed line and mobile)	Increased price pressure due mainly to Asian providers (Huawei, ZTE)
Strict cost cutting programme	High R&D expenses for 4G/LTE networks
Emerging markets with catch up requirement with respect to infrastructure investments	Project risks
Product innovations (High Leverage Networks)	Currency risks

¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

PROFIT AND LOSS ACCOUNT

Euro m	2010	2011e	2012e	2013e	2014e	2015e
Sales	15,996.0	16,300.0	16,640.0	17,208.8	17,613.6	17,701.6
% against prev. year	6%	2%	2%	3%	2%	1%
Cost of goods sold	-10,425.0	-10,497.2	-10,674.6	-10,867.4	-10,920.4	-10,975.0
Gross profit	5,571.0	5,802.8	5,965.4	6,341.4	6,693.2	6,726.6
% against prev. year	9%	4%	3%	6%	6%	1%
Sales costs	-2,907.0	-2,787.3	-2,845.4	-2,942.7	-2,994.3	-3,009.3
Administration costs	0.0	0.0	0.0	0.0	0.0	0.0
R&D expenditure	-2,662.0	-2,608.0	-2,562.6	-2,650.2	-2,712.5	-2,726.1
Other operating income	92.0	489.0	499.2	516.3	528.4	531.0
Other operating expenses	-403.0	-326.0	-332.8	-344.2	-352.3	-354.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	-309.0	570.5	723.8	920.7	1,162.5	1,168.3
For information: EBIT adjusted	-219.0	720.5	853.8	1,050.7	1,292.5	1,298.3
% against prev. year			19%	23%	23%	0%
Interest paid / received	66.0	-59.6	-9.5	-80.3	-46.6	-25.0
Profit before tax	-243.0	510.9	714.4	840.4	1,115.9	1,143.4
For information: EBT adjusted	-153.0	660.9	844.4	970.4	1,245.9	1,273.4
% against prev. year			28%	15%	28%	2%
Income taxes from continuing operations	-37.0	-146.4	-204.4	-266.2	-348.9	-357.1
Tax rate	-15%	29%	29%	32%	31%	31%
Net profit from continuing operations	-280.0	364.5	509.9	574.1	767.0	786.2
Net profit from discontinued operations	-12.0	0.0	0.0	0.0	0.0	0.0
Net profit	-292.0	364.5	509.9	574.1	767.0	786.2
Profit or loss attributable to minority interest	-42.0	0.0	0.0	0.0	0.0	0.0
Profit or loss attributable to shareholders	-334.0	364.5	509.9	574.1	767.0	786.2
thereof from continuing operations	-322.0	364.5	509.9	574.1	767.0	786.2
thereof from discontinued operations	-12.0	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	2259.877	2259.877	2259.877	2259.877	2259.877	2259.877
IFRS earnings per share, diluted	-0.15	0.16	0.23	0.25	0.34	0.35
Adjusted earnings per share, diluted (contin.)	-0.07	0.20	0.26	0.30	0.39	0.39
For information						
Depreciation	987.0	1,025.3	1,049.2	1,065.1	1,073.0	1,073.0
EBITDA	678.0	1,595.8	1,773.0	1,985.8	2,235.5	2,241.3
EBITDA adjusted	759.0	1,745.8	1,903.0	2,115.8	2,365.5	2,371.3
Fiscal year end December						

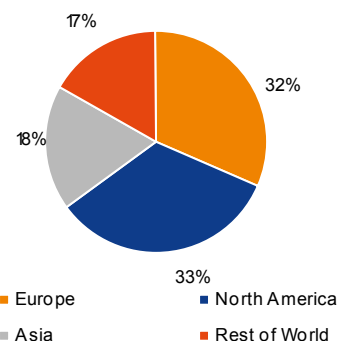
Source: Alcatel-Lucent and DZ BANK estimates

RATIOS

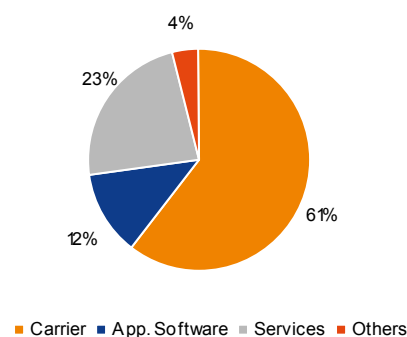
Euro	2010	2011e	2012e	2013e	2014e
Profit and loss ratios					
Sales (m)	15,996.0	16,300.0	16,640.0	17,208.8	17,613.6
EBITDA margin	4.7%	10.7%	11.4%	12.3%	13.4%
EBIT margin	-1.4%	4.4%	5.1%	6.1%	7.3%
Net margin	-0.7%	2.8%	3.6%	3.9%	5.0%
Investment ratio	4.3%	2.5%	1.2%	1.2%	0.0%
R&D as % of sales	16.6%	16.0%	15.4%	15.4%	15.4%
Admin and sales costs as % of sales	18.2%	17.1%	17.1%	17.1%	17.0%
Net other operating costs as % of sales	1.9%	-1.0%	-1.0%	-1.0%	-1.0%
Net financial income as % of sales	0.4%	-0.4%	-0.1%	-0.5%	-0.3%
Interest cover		5.1	11.6	6.9	11.7
Average sales growth next five years	2.0%	1.7%			
Average earnings growth next five years		14.8%			
Profitability ratios					
ROE	-2.5%	10.1%	11.6%	12.0%	13.6%
ROCE	-2.0%	7.0%	9.1%	12.3%	17.3%
Productivity ratios					
Sales per employee ('000)	204.59	211.69	220.40	229.45	234.85
EBIT per employee ('000)	-2.80	9.36	11.31	14.01	17.23
Balance sheet ratios					
Equity ratio	16.9%	18.0%	19.5%	20.9%	22.9%
Long term debt and equity / Fixed assets	137.6%	148.7%	165.8%	187.0%	219.6%
Liquidity (quick ratio)	127.4%	138.9%	154.1%	168.8%	188.0%
Receivables as % of sales	22.9%	22.9%	22.9%	22.9%	22.9%
Investment (net of GW) / Depreciation		39.0%	19.1%	18.8%	0.0%
Working capital as % of sales	0.8%	0.8%	0.8%	0.8%	0.8%
Net debt (m)	4,779.0	3,745.2	2,350.7	853.8	-1,043.2
Net debt complete (m)	6,487.0	5,499.6	4,143.2	2,708.5	871.7
Figures per share					
Earnings per share, diluted	-0.07	0.20	0.26	0.30	0.39
Diluted cash earnings per share	0.37	0.66	0.73	0.77	0.86
Dividend per common share	0.00	0.00	0.00	0.00	0.00
Cash per share, diluted	2.23	2.69	3.30	3.97	4.81
Net debt per share, diluted	2.11	1.66	1.04	0.38	-0.46
Valuation ratios					
Enterprise value / Sales	0.6	0.5	0.5	0.4	0.2
Enterprise value / EBITDA	13.7	5.1	4.0	2.9	1.8
Enterprise value / EBIT		12.4	8.8	5.8	3.2
EV/Sales to sales growth	0.21	0.27	0.27	0.21	0.14
PEG ratio - common shares			0.52		
Fiscal year end December					

Source: Alcatel-Lucent, DZ BANK estimates

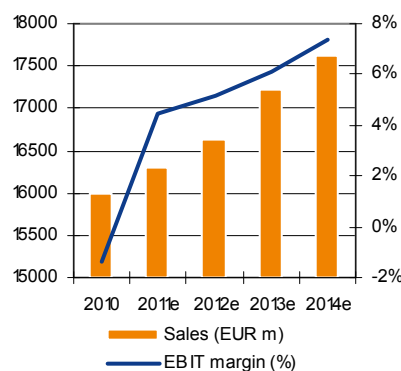
SALES BY REGION 2010



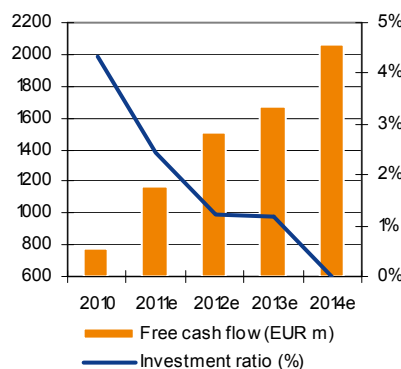
SALES BY BUSINESS SEGMENT 2010



SALES AND MARGIN DEVELOPMENT



FREE CASH FLOW AND INVESTMENT RATIO



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BALANCE SHEET

IFRS - Euro m	2010	2011e	2012e	2013e	2014e	2015e
ASSETS						
Non current assets	12,097.0	11,471.7	10,622.5	9,757.4	8,684.4	7,611.3
Intangible assets	6,426.0	5,956.5	5,374.2	4,783.4	4,088.3	3,393.2
thereof goodwill	4,370.0	4,370.0	4,370.0	4,370.0	4,370.0	4,370.0
Tangible assets	1,311.0	1,155.1	888.2	614.0	236.1	-141.9
Financial assets	409.0	409.0	409.0	409.0	409.0	409.0
Other long-term assets	3,951.0	3,951.0	3,951.0	3,951.0	3,951.0	3,951.0
Current assets	12,779.0	13,947.5	15,492.7	17,241.6	19,317.8	21,277.3
Inventories	2,295.0	2,338.6	2,387.4	2,469.0	2,527.1	2,539.7
Trade receivables	3,664.0	3,733.6	3,811.5	3,941.8	4,034.5	4,054.7
Financial assets	649.0	649.0	649.0	649.0	649.0	649.0
Other receivables and short-term assets	1,128.0	1,149.4	1,173.4	1,213.5	1,242.1	1,248.3
Liquid assets	5,040.0	6,073.8	7,468.3	8,965.2	10,862.2	12,782.7
Assets available for sale	3.0	3.0	3.0	3.0	3.0	3.0
Total assets	24,876.0	25,419.2	26,115.2	26,999.0	28,002.2	28,888.7
LIABILITIES						
Shareholders' equity	4,205.0	4,569.5	5,079.4	5,653.6	6,420.5	7,206.7
Share capital	4,637.0	4,637.0	4,637.0	4,637.0	4,637.0	4,637.0
Reserves	1,253.0	1,617.5	2,127.4	2,701.6	3,468.5	4,254.7
Other equity	-779.0	-779.0	-779.0	-779.0	-779.0	-779.0
Minority interest	660.0	660.0	660.0	660.0	660.0	660.0
Treasury stock	-1,566.0	-1,566.0	-1,566.0	-1,566.0	-1,566.0	-1,566.0
Non current liabilities	12,445.0	12,491.5	12,529.5	12,591.7	12,651.8	12,713.8
Provisions for pensions	5,090.0	5,090.0	5,090.0	5,090.0	5,090.0	5,090.0
Other provisions	1,858.0	1,904.5	1,942.5	2,004.7	2,064.8	2,126.8
Financial liabilities	4,112.0	4,112.0	4,112.0	4,112.0	4,112.0	4,112.0
Other payables	1,385.0	1,385.0	1,385.0	1,385.0	1,385.0	1,385.0
Current liabilities	8,226.0	8,358.3	8,506.2	8,753.7	8,929.8	8,968.1
Trade payables	4,325.0	4,407.2	4,499.1	4,652.9	4,762.4	4,786.2
Other provisions	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	1,266.0	1,266.0	1,266.0	1,266.0	1,266.0	1,266.0
Other liabilities	2,635.0	2,685.1	2,741.1	2,834.8	2,901.5	2,916.0
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	24,876.0	25,419.2	26,115.2	26,999.0	28,002.2	28,888.7
Fiscal year end December						

Source: Alcatel-Lucent and DZ BANK estimates

1) - 9) Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

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Buy 72.9%, Hold 8.3%, Sell 18.8%

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RATING HISTORY

Recommendation	Date	Price
Buy	9 Aug 2010	2.23 EUR

^{1) - 9)} Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

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