



Small Caps Opportunity

D.Mail

Buy

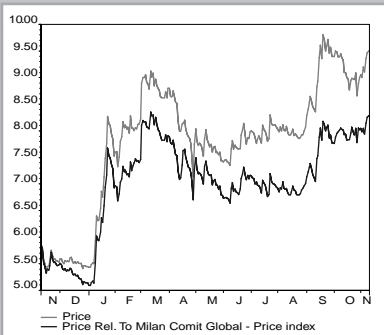
Target Price (Eu):

12.0

Current Price (Eu):

9.5

12 Months Performance



Source: Thomson Financial

- 1 Strong growth at all levels in Q3.
- 2 Local media are growing at a very healthy pace.
- 3 CAT margin recovery is a strong signal. Dmail growth continues.
- 4 2005 estimates lowered slightly (also for foreign businesses start-up costs) but the growth trend is exciting
- 5 Growth strategy yet to be implemented. Dmail to be the delivery platform for Italian brands.

DMAIL - Key Figures

RIC	Sector	P	N. shares	Mkt Cap	Mkt float %	Vol. x000
DMA.MI	Direct mail	9.50	7.7	73	42%	44.6
	Sales	EBITDA	EBIT	Net profit	Nfp (adj)	BV
2003A	44.0	2.0	-3.2	-4.4	-4.5	21.5
2004A	44.8	4.3	0.7	1.9	-0.8	24.1
2005E	50.0	4.5	3.0	1.8	-0.5	22.2
2006E	53.2	6.1	4.5	3.2	0.8	22.4
2007E	56.0	7.3	5.8	4.2	2.9	25.7
2008E	58.5	8.3	6.8	5.0	5.5	29.4
	P/E	P/BV	EV/EBITDA	EV/EBIT	Debt/Equity	Div.Yield
2003A	144.5	3.4	39.1	-24.2	0.21	0.0%
2004A	28.5	3.0	17.3	106.9	0.03	1.1%
2005E	27.9	3.3	16.3	24.5	0.02	1.6%
2006E	19.0	3.2	11.9	15.8	cash	2.1%
2007E	15.0	2.8	9.5	12.0	cash	2.6%
2008E	13.0	2.5	8.1	9.9	cash	3.2%

Source: Intermonte SIM estimates

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Q3 results confirm the solid turnaround

1 Strong growth at all levels in Q3.

With the only exception of foreign activities, Dmail showed healthy results in Q3 in all divisions. Consolidated turnover maintained the growth of the first 6 months with a +9.3% to 10mn; Ebitda multiplied by 3 to Eu 0.52mn thanks to gross margin improvement at both the media commerce and local media divisions; Pre-tax the company posted a profit of Eu 0.165mn vs a slight loss last year. Debt improved by 0.5mn in Q3 to 1.5mn (2 mn improvement yoy despite the 0.7mn dividend and 1mn acquisition of a local newspaper). Despite the low seasonality, these results will reassure the market after the badly perceived Q2, not easy to read due to change in accounting criteria and the additional costs of the new organizational structure (under the new management).

2 Local media are growing at a very healthy pace.

After the strong 1H, when turnover was up 16%, also Q3 maintained the trend (+16.5% organic, +31% including La Martesana). Turnover growth is explained by both advertising (up 17% including the new acquisition) and a significant rise of revenues from the sale of local news to regional tv and websites and other revenues (digital services, revenues from the newsstand acquired in Lecco). The trend is even more impressive considering the tough national newspapers trend and may be explained by a shift from other local advertising media (flyers) to local newspapers.

3 CAT margin recovery is a strong signal. Dmail growth continues.

Despite the continuation of the -7% turnover decline trend, CAT showed a surprising margin recovery: Ebitda margin moved from 11% to 13%. In the first 9 months, CAT recorded a margin of 20%, impressive for a “low brand” consumer electronics business. The market is tough for this business, as it is evident with the troubles at one of CAT’s main competitor Amstrad, however because of this chances are there for CAT to gain market share and thus to keep very high profitability levels. Dmail recorded a 13.5% growth in Italy, maintaining the 1H trend, while foreign activities (Romania, Holland) have yet to be launched (turnover -6% in Q3 on still negligible numbers).

4 2005 estimates lowered slightly (also for foreign businesses start-up costs) but the growth trend is exciting

With compared to our preliminary numbers published on the note of Oct 9th, we cut slightly our estimates. The reduction is due to CAT results that, despite recovering in Q3, won’t reach our previous estimates. But above all, we are including Eu0.4mn start-up costs for the launch of the foreign Dmail. Our current Q4 estimates, which imply a further 50% rise in Ebitda in a quarter much more relevant (Q4 accounts for around 30% of yearly ebitda) are reliable based on a simple thinking: in Q4 2004 the company generated Eu 1.1mn in Ebitda despite 1mn in “other operating costs”, half of which non recurrent. By adding 0.5mn to last year ebitda and 0.2mn for the consolidation of La Martesana, we already reach Eu 1.8mn, above our 1.7mn Q4 ebitda forecast.

5 Growth strategy yet to be implemented. Dmail to be the delivery platform for Italian brands.

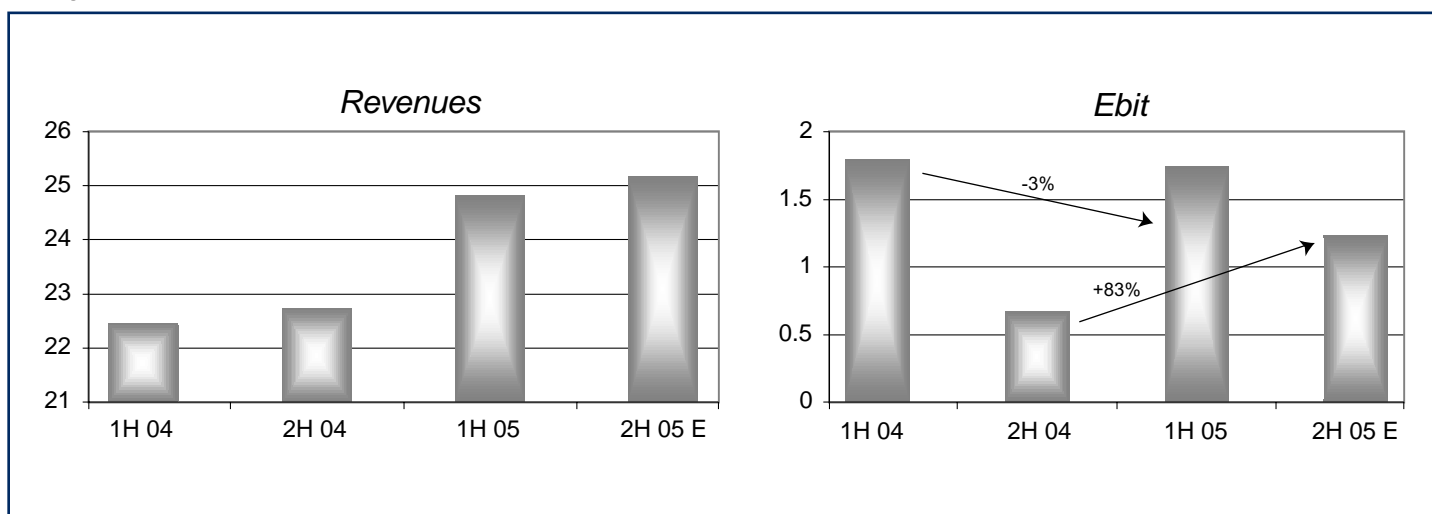
After the turnaround realised by the management between 2004 and 2005, we feel that the story on Dmail will change significantly in the next few years: from a local distributor of fancy goods and gifts, Dmail thanks to the agreement realised with the Dutch company Docdata aims to become the delivery platform for the long distance sales for Italian brands. On the local media, synergies with Cairo, one of the main shareholders, may be found. In addition, the local newspapers network will be progressively expanded through targeted acquisitions.

Q3 results by division

		1H04	1H05		Q3 04	Q3 05	
Dmail Italy							
	turnover	8.4	9.5	14%	3.7	4.2	14%
	ebitda	0.7	0.8	10%	0.2	0.4	94%
Dmail foreign							
	turnover	1.5	1.7	14%	0.9	0.8	-6%
	ebitda	0.0	0.0	35%	0.1	0.0	-95%
CAT							
	turnover	6.1	5.7	-7%	2.0	1.9	-7%
	ebitda	1.5	1.3	-17%	0.2	0.3	12%
Local media							
	turnover	7.1	8.2	16%	2.8	3.7	31%
	ebitda	0.7	1.0	34%	0.1	0.2	99%

Source: Intermonte SIM

Half year results evolution



Source: Intermonte SIM

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