

DMAIL

BUY

SECTOR: Media

Price (Eu):

11.00

Fabrizio Barini

+39-02-77115.319

Target Price (Eu):

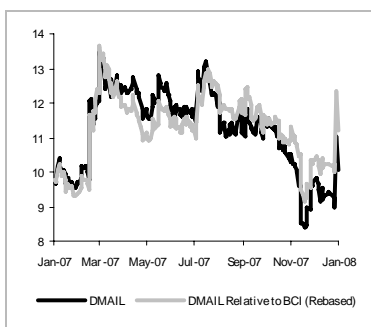
14.40

e-mail: fbarini@intermonte.it

Consumption show signs of weakness but online shopping is booming

- E-commerce consumption on the rise...** Whereas it was a cold Christmas for retail sales through traditional channels, it was a very different matter for online shopping. According to early indications provided by research institutes, Christmas sales in US shopping centres increased by just 3.6% in 2007, the weakest trend for 4 years. Compare this to the +22.4% recorded by sales on the internet. What's more, according to Forrester Research, Italians spent Eu2.1bn on Christmas shopping online in 2007, +50% YoY, with half of this figure spent on travel, clothing and consumer electronics.
- ...and the group's consumer division shines.** DMail is yet to provide official figures, but the Christmas season for the "distance sales" division (80% of consolidated sales) should have performed beyond all expectations. YoY growth, sustained by the internet channel, is likely to come in at around 30%. DMail is one of the leading Italian companies in online shopping, through both its traditional business and the company Bow.it, which specialises in consumer electronics. The result in December should partly have offset the considerable decline recorded since the end of the Summer.
- Estimates revised.** Fears over a slowdown in consumption linked to the macro situation have led us to take a close look at our estimates. Early figures for December, however, while probably not enough to make up all of the lost ground, lead us to tone down the revisions to our assumptions for the current year and for subsequent years. Overall, we have revised 2007-08 EPS estimates downwards by 14%, on average.
- Mediaset looking at DMail dossier.** The two groups have signed a confidentiality agreement as they begin talks on potential business development in the home shopping sector. Mediaset announced that ongoing talks could lead to an acquisition, or simply to commercial deals. Mediaset's interest is probably focused mainly on the logistics/distribution platform, although DMail's publishing business could also help Mediaset broaden its advertising collection business.
- BUY confirmed, target price Eu14.4.** Positive newsflow, in terms of both speculative appeal and the business trend, compels us to confirm our BUY recommendation on the stock. Our new target price is the result of a cut in estimates that mainly reflects a more conservative approach than we were taking in the past with regard to growth in all of the group's divisions, as we expect margins to expand in a less accentuated fashion due to a probable increase in costs for services.

DMAIL - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): From 16.1 to 14.4

Change in EPS est:	2007E	2008E
	-14.8%	-13.4%

STOCK DATA

Reuters code:	DMA.MI
Bloomberg code:	DMA.IM

Performance	1m	3m	12m
Absolute	-2.4%	-21.5%	-11.0%
Relative	0.0%	-13.1%	-0.3%
12 months H/L:	13.48/8.38		

SHAREHOLDER DATA

No. of Ord. shares (mn):	8
Total No. of shares (mn):	8
Mkt Cap Ord (Eu mn):	69
Total Mkt Cap (Eu mn):	69
Mkt Float - ord (Eu mn):	29
Mkt Float (in %):	41.7%
Main shareholder:	
Gianluigi Viganò	11.5%

BALANCE SHEET DATA

Book value (Eu mn):	36
BVPS (Eu):	4.67
P/BV:	1.9
Net Financial Position (Eu mn):	-23
Enterprise value (Eu mn):	91

Key Figures	2005A	2006A	2007E	2008E	2009E
Sales (Eu mn)	49	69	105	122	141
Ebitda (Eu mn)	5	6	8	12	15
Net profit (Eu mn)	1	1	2	5	7
EPS - New (Eu)	0.17	0.10	0.25	0.67	0.92
EPS - Old (Eu)	0.17	0.10	0.29	0.77	n.a
DPS (Eu)	0.10	0.10	0.10	0.20	0.28

Ratios & Multiples	2005A	2006A	2007E	2008E	2009E
P/E	52.9	90.3	36.4	13.5	9.7
Div. Yield	1.1%	1.1%	1.1%	2.2%	3.1%
EV/Ebitda	15.2	15.8	12.4	7.4	5.8
ROCE	8.9%	6.1%	7.9%	15.6%	20.5%

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Growth is still strong but our approach on retail business become more conservative: -14% Eps 2007/2008

Fears over a slowdown in consumption linked to the macro situation have led us to take a close look at our estimates. Early figures for December, however, while probably not enough to make up all of the lost ground, lead us to tone down the revisions to our assumptions for the current year and for subsequent years. **Overall, we have revised our 2007-08 EPS estimates downwards by 14%, on average.**

In the table below we present our new assumption on the consumers division which is the most impacted by our estimates revision.

Dmail - Commerce Division

Eu mn	2005A	%	2006A	%	2007E	%	2008E	%	2009E	%
		yoy		yoy		yoy		yoy		yoy
DMAIL	22.9	17.6%	28.9	26%	33.7	16.6%	40.1	19.0%	46.4	15.6%
internet	3.9	45.0%	5.1	30.0%	5.8	15.0%	6.7	15.0%	7.7	15.0%
mail	4.5	5.0%	4.7	5.0%	5.4	15.0%	5.9	10.0%	6.5	10.0%
call center	5.9	10.0%	6.5	5.0%	7.4	15.0%	8.2	10.0%	9.0	10.0%
shops	6.3	25.0%	7.2	15.0%	7.6	5.0%	8.3	10.0%	9.1	10.0%
others*	2.4	10.0%	5.5	129.8%	5.0	-9.1%	6.0	20.0%	7.0	16.7%
media commerce	0	n.m	0	n.m	2.5	n.m	5.0	100.0%	7.0	40.0%
CAT	11.4	-2.0%	12.0	4.8%	15.5	29.2%	17.0	9.7%	18.0	5.9%
BOW.IT**	0.0	n.m	5.0	n.m	25.0	nm	30.0	20.0%	35.0	16.7%
GDD**	0.0	0.0%	10.0	n.m	16.0	nm	20.0	25.0%	20.0	0.0%
Elision	n.a		-3.4		-5.0		-5.0		-5.0	
Net sales	34.4	10.2%	55.9	62.8%	85.2	52.4%	102.1	19.8%	114.4	12.0%
Ebitda	5.3	29.6%	5.5	3.9%	7.2	30.6%	11.1	54.2%	13.4	20.2%
% of sales	15.5%		9.9%		8.5%		10.9%		11.7%	

Source: Intermonte SIM. (*) Romania from 2007, Ferrari from 2007, Portugal; (**) Minorities represent 49% of stake

Mediaset Looking at DMail Dossier

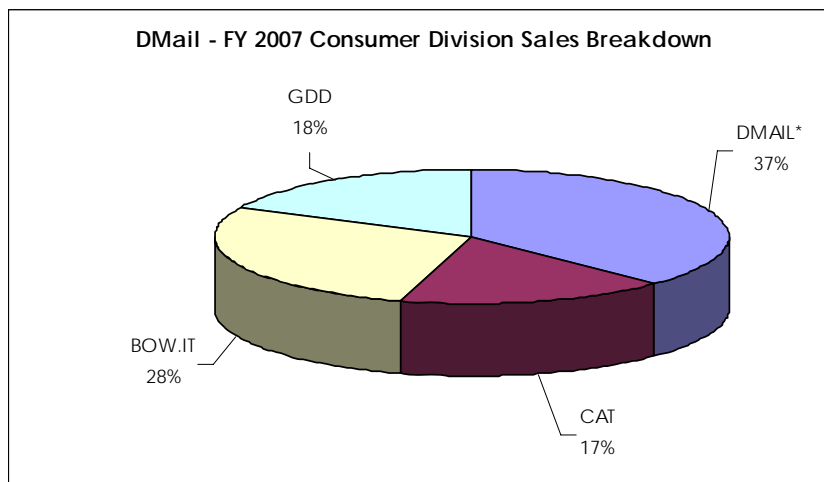
The two groups have signed a confidentiality agreement as they begin talks on potential business development in the home shopping sector. Mediaset announced that ongoing talks could lead to an acquisition, or simply to commercial deals.

Mediaset's interest is probably focused mainly on the logistics/distribution platform, although DMail's publishing business could also help Mediaset broaden its advertising collection business. The group controlled by Fininvest has serious intentions to invest in the development of Mediashopping, the digital terrestrial channel dedicated to home shopping. The ideal target company is a group that already has a consolidated presence in online sales to be able to reinforce the Mediashopping division, which is one of the Mediaset group's main source of non-TV related revenue.

DMail currently boasts about a million customers; 80% of these are consumers and the other 20% are business clients. In 2007, this division is expected to have generated Eu85mn in turnover, an increase of roughly 50% from 2006 at constant consolidation base. Online sales represent over 40% of total turnover, with 45% made by telephone and 5% at proprietary stores.

Among the most recent deals involving distance sales in Italy, we would like to recall that of Eprice. Eprice, which specialises in electronics sales to consumers via Internet, was acquired early last year by Paolo Anio, founder of Virgilio, for Eu3mn or 7x 2006 EBITDA. Eprice closed 2006 with Eu25mn in sales and Eu0.6mn in EBITDA.

In the table below we present the sales breakdown for the consumer division:



Source: Intermonte SIM. (*) Italy, Portugal and Romania

Valuation

Our valuation of DMail is based on a SoP of the media and commerce businesses.

For the media business, we have used the lowest sales multiple applied in corporate action deals involving companies with similar business models. Indeed, DMail's top management has always stated that the media business is not core, and could therefore be cashed in once a sufficient critical mass has been achieved. In light of the recent deals that have extended the group's area of distribution (Piemonte, Liguria to Valle d'Aosta), it makes sense to value this business with a view to corporate action.

As far as the commerce divisions are concerned, we have used the average multiple for companies operating in the retail segment through innovative channels, such as Esprinet, for example. We are not applying a corporate action premium, however, in spite of the recent interest from Mediaset, in light of statements from the company that highlight that negotiations are still at a very early stage.

Reported below is our valuation model based on a sum of the parts:

Dmail - Sop Valuation

LOCAL MEDIA

Most recent transactions in Italy

Magazine	EV	Sales	EV/sales
Il Gazzettino	230.0	60.0	3.8
Società Editrice Adriatica	24.0	9.5	2.5
Nuovo Quotidiano Puglia	31.2	9.5	3.3
Average			3.2

2009E Dmail sales	26.3
Lowest transaction multiple	2.5
Ev Local media	65.8

COMMERCE

2009E Ebitda	11.4
Multiple of the traditional retail	5.0
EV Commerce	56.9

GROUP EV	122.7
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NFP 2009 Adj.	-20.6
Real Estate	8.0
Equity value	110.1
Mn shares	7.7

Value per share	14.4
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Source: Intermonte SIM

BUY confirmed, target price Eu14.4

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DMAIL - KEY FIGURES

		2005A	2006A	2007E	2008E	2009E
	Fiscal year end	31/12/2005	31/12/2006	31/12/2007	31/12/2008	31/12/2009
PROFIT & LOSS (Eu mn)	Sales	49	69	105	122	141
	EBITDA	5	6	8	12	15
	EBIT	3	3	4	9	12
	Financial income (charges)	(1)	(1)	(1)	(1)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	2	3	8	11
	Taxes	(1)	(1)	(1)	(3)	(4)
	Tax rate (%)	52.5%	54.5%	41.2%	36.9%	35.6%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	1	1	2	5	7
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	5	6	8	12	15
	Ebit excl. extraordinary items	3	3	4	9	12
Net profit restated	1	1	2	5	7	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	8	8	8	8	8
	EPS stated fd	0.17	0.10	0.25	0.67	0.92
	EPS restated fd	0.17	0.10	0.25	0.67	0.92
	BVPS fd	4.27	4.06	4.21	4.67	5.08
	Dividend per share (ord)	0.10	0.10	0.10	0.20	0.28
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)	48.4%	131.9%	21.4%	5.9%	4.2%
CASH FLOW (Eu mn)	Gross cash flow	4	4	5	8	11
	Change in NWC	2	(6)	(7)	(2)	(3)
	Capital expenditure	0	(3)	0	0	0
	Other cash items	1	(7)	0	0	0
	Free cash flow (FCF)	6	(11)	(2)	6	8
	Acquisitions, divestments & others	(2)	(3)	(4)	(2)	(2)
	Dividend	(1)	(1)	(1)	(1)	(2)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	3	(14)	(6)	3	5	
BALANCE SHEET (Eu mn)	Total fixed assets	33	44	48	47	47
	Net working capital	9	11	18	20	23
	Long term liabilities	(4)	(5)	(7)	(8)	(12)
	Net capital employed	38	51	58	58	58
	Net financial position	(5)	(20)	(26)	(23)	(19)
	Group equity	32	30	31	35	38
	Minorities	1	1	1	1	1
Net equity	33	31	32	36	39	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	69	69	69	69	69
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(5)	(20)	(26)	(23)	(19)
	Enterprise value	74	88	95	91	88
RATIOS(%)	EBITDA margin*	9.8%	8.1%	7.2%	10.1%	10.8%
	EBIT margin*	6.5%	3.9%	4.1%	7.4%	8.5%
	Gearing - Debt/equity	15.9%	65.1%	82.9%	64.7%	49.4%
	Interest cover on EBIT	5.3	2.6	4.0	9.1	13.2
	Debt/Ebitda	1.04	3.50	3.39	1.82	1.23
	ROCE*	8.9%	6.1%	7.9%	15.6%	20.5%
	ROE*	4.2%	2.4%	6.0%	15.0%	19.0%
	EV/CE	2.0	2.0	1.7	1.6	1.5
	EV/Sales	1.5	1.3	0.9	0.7	0.6
	EV/Ebit	23.1	32.7	22.1	10.0	7.4
Free Cash Flow Yield	9.2%	-15.8%	-2.4%	8.9%	12.1%	
GROWTH RATES (%)	Sales	9.5%	39.7%	52.2%	16.2%	15.1%
	EBITDA*	18.3%	15.2%	36.2%	62.5%	22.6%
	EBIT*	29.6%	-15.6%	58.5%	112.4%	30.8%
	Net profit	-70.8%	-38.3%	148.3%	169.8%	38.7%
	EPS restated	-70.3%	-41.4%	148.3%	169.8%	38.7%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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- OUTPERFORM:** stock expected to outperform the market by between 10% and 25% over a 12 month period;
- NEUTRAL:** stock performance expected at between +10% and -10% compared to the market over a 12 month period;
- UNDERPERFORM:** stock expected to underperform the market by between -10% and -25% over a 12 month period;
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BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
25.16%	24.52%	34.84%	14.19%	1.29%

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BUY	OUTPERFORM	NEUTRAL	UNDERPERFORM	SELL
63.16%	10.53%	26.31%	0.0%	0.0%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	DMAIL		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	14.40	Previous Target (Eu):	16.10
Current Price (Eu):	8.99	Previous Price (Eu):	11.1
Date of report:	09/01/2008	Date of last report:	07/09/07

Further information is available