

DMAIL

OUTPERFORM

SECTOR: Media

Price (Eu):

5.49

Fabrizio Barini

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Target Price (Eu):

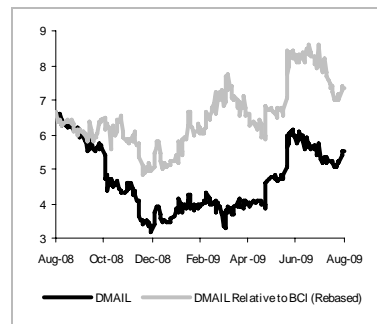
6.00

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Surprising Growth in Local Media

- 2Q09 results: still strong.** Dmail closed the second quarter with Eu30.5mn in sales, +38% YoY. EBITDA rose more than proportionally to Eu1.8mn, +11% YoY; EBIT was Eu1.0mn, down 23% YoY, reflecting higher write-offs in the media commerce division linked to general economic risks. By division, Media Commerce confirmed a double-digit growth trend (+18% in 1H), while Local Media recorded a surprising +% in sales, beating the reference market (-17%) by a wide margin. The local media business closed with a positive net result. The net financial position was Eu21mn, Eu4mn better than in 1H08, but Eu3.5mn higher than at end '08, due to seasonal factors.
- Estimates fine-tuned.** Dmail's results beat our estimates, especially at the top line, where the local media division's performance came as a surprise. However, write-offs affected both EBITDA and EBIT, which turned out line with our expectations. However, results were solid on the whole, leading us to fine-tune FY09 estimates to account for a better than expected trend in local media.
- From Buy to OUTPERFORM, target price Eu6.0.** Dmail didn't disappoint and is still a great growth story with a business model that is resilient to the economic crisis and falling consumer spending. For our valuation of Dmail, we use a sum of the parts method for the media commerce and the local media activities. We do not apply a holding discount, as there are significant synergies between the two businesses. In this report, we have decided to raise our valuation of the local media business, as we raised our estimates in light of better than expected 2Q results. Our increased valuation also incorporates the re-rating of media sector stocks. Our valuation of the media commerce business is broadly unchanged. The net effect is an increase in the fair value from Eu5.8 to Eu6.0. The next few months of the year will be the most important for the company and could surprise on the upside. However, visibility is still low regarding a further increase in growth. For this reason, although we remain positive on the stock, we are lowering our recommendation from Buy to OUTPERFORM given that upside has decreased.

DMAIL - 12m Performance



RATING: from BUY to OUTPERFORM

TARGET PRICE (Eu): from 5.80 to 6.00

Change in EPS est:	2008A	2009E
	-3.0%	-1.4%

STOCK DATA

Reuters code:	DMA.MI
Bloomberg code:	DMA IM

Performance	1m	3m	12m
Absolute	1.6%	14.6%	-16.8%
Relative	-7.8%	9.0%	7.5%
12 months H/L:	6.67/3.18		

SHAREHOLDER DATA

No. of Ord. shares (mn):	8
Total No. of shares (mn):	7
Mkt Cap Ord (Eu mn):	42
Total Mkt Cap (Eu mn):	42
Mkt Float - ord (Eu mn):	18
Mkt Float (in %):	41.7%
Main shareholder:	
Gianluigi Viganò	11.5%

BALANCE SHEET DATA

BALANCE SHEET DATA	2009
Book value (Eu mn):	35
BVPS (Eu):	4.62
P/BV:	1.2
Net Financial Position (Eu mn):	-16
Enterprise value (Eu mn):	58

Key Figures	2006A	2007A	2008A	2009E	2010E
Sales (Eu mn)	76	91	114	135	153
Ebitda (Eu mn)	6	5	6	9	14
Net profit (Eu mn)	0	1	1	2	6
EPS - New (Eu)	0.02	0.14	0.08	0.33	0.74
EPS - Old (Eu)	0.02	0.14	0.08	0.34	0.75
DPS (Eu)	0.10	0.10	0.00	0.06	0.14

Ratios & Multiples	2006A	2007A	2008A	2009E	2010E
P/E	nm	39.4	71.3	16.7	7.4
Div. Yield	1.8%	1.8%	0.00	1.2%	2.6%
EV/Ebitda	11.0	11.5	9.4	6.7	3.9
ROCE	5.7%	6.0%	6.9%	11.4%	22.5%

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DMAIL - KEY FIGURES

		2006A	2007A	2008A	2009E	2010E
	Fiscal year end	31/12/2006	31/12/2007	31/12/2008	31/12/2009	31/12/2010
PROFIT & LOSS (Eu mn)	Sales	76	91	114	135	153
	EBITDA	6	5	6	9	14
	EBIT	3	3	4	6	11
	Financial income (charges)	(1)	(1)	(2)	(2)	(2)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	1	2	1	4	10
	Taxes	(1)	(1)	(1)	(2)	(4)
	Tax rate (%)	90.0%	56.6%	61.2%	41.9%	42.6%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	0	1	1	2	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	6	5	6	9	14
	Ebit excl. extraordinary items	3	3	4	6	11
Net profit restated	0	1	1	2	6	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	7	7	7	7	7
	EPS stated fd	0.02	0.14	0.08	0.32	0.72
	EPS restated fd	0.02	0.14	0.08	0.33	0.74
	BVPS fd	4.06	4.24	4.29	4.62	4.62
	Dividend per share (ord)	0.10	0.10	0.00	0.06	0.14
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)	562.5%	73.3%	30.0%	20.0%	20.0%
CASH FLOW (Eu mn)	Gross cash flow	4	3	3	5	9
	Change in NWC	(6)	(7)	4	(3)	(3)
	Capital expenditure	(3)	7	(1)	(1)	(2)
	Other cash items	(7)	1	(2)	0	0
	Free cash flow (FCF)	(11)	5	5	2	4
	Acquisitions, divestments & others	(3)	2	(1)	0	0
	Dividend	(1)	(1)	(1)	(0)	(0)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(15)	6	3	1	3	
BALANCE SHEET (Eu mn)	Total fixed assets	44	50	43	43	43
	Net working capital	11	18	14	16	19
	Long term liabilities	(5)	(14)	(6)	(7)	(13)
	Net capital employed	51	53	50	51	48
	Net financial position	(20)	(21)	(18)	(16)	(13)
	Group equity	30	31	32	34	34
	Minorities	1	1	1	1	1
Net equity	31	32	33	35	35	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	42	42	42	42	42
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(20)	(21)	(18)	(16)	(13)
	Enterprise value	62	63	60	58	55
RATIOS(%)	EBITDA margin*	7.4%	6.1%	5.6%	6.5%	9.3%
	EBIT margin*	3.3%	3.5%	3.2%	4.3%	7.3%
	Gearing - Debt/equity	65.0%	66.7%	55.2%	46.9%	38.0%
	Interest cover on EBIT	2.2	4.3	1.7	3.6	7.0
	Debt/Ebitda	3.49	3.82	2.77	1.85	0.92
	ROCE*	5.7%	6.0%	6.9%	11.4%	22.5%
	ROE*	0.4%	3.3%	1.8%	7.2%	15.7%
	EV/CE	1.4	1.2	1.1	1.1	1.1
	EV/Sales	0.8	0.7	0.5	0.4	0.4
	EV/Ebit	24.4	20.1	16.6	10.0	4.9
Free Cash Flow Yield	-25.9%	11.2%	12.3%	4.0%	8.5%	
GROWTH RATES (%)	Sales	53.2%	19.5%	25.3%	18.9%	13.6%
	EBITDA*	15.2%	-2.0%	15.7%	37.4%	63.2%
	EBIT*	-21.1%	24.1%	14.3%	62.5%	92.9%
	Net profit	-89.0%	667.6%	-44.7%	325.6%	125.5%
	EPS restated	-89.0%	667.6%	-44.7%	325.6%	125.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

2Q 2009 Results Lead By Media Commerce Area

Dmail closed the second quarter with Eu30.5mn in sales, +38% YoY. EBITDA rose more than proportionally to Eu1.8mn, +11% YoY; EBIT was Eu1.0mn, down 23% YoY, reflecting higher write-offs in the media commerce division linked to general economic risks. By division, Media Commerce confirmed a double-digit growth trend (+18% in 1H), while Local Media recorded a surprising +% in sales, beating the reference market (-17%) by a wide margin. The local media business closed with a positive net result. The net financial position was Eu21mn, Eu4mn better than in 1H08, but Eu3.5mn higher than at end '08, due to seasonal factors.

Numbers better than expected

Dmail's results beat our estimates, especially at the top line, where the local media division's performance came as a surprise. However, write-offs affected both EBITDA and EBIT, which turned out line with our expectations. However, results were solid on the whole, leading us to fine-tune FY09 estimates to account for a better than expected trend in local media.

In the table below we report the comparison between our estimates and the current results for Dmail Group.

PROFIT&LOSS (Eu mn)	2Q08	2Q09E	2Q09A	% A/E	1H08	1H09E	1H09A	% A/E	2009E	2010E
SALES	22.2	26.8	30.5	14%	49.0	55.0	58.7	7%	135.1	153.5
YoY change (%)	21%	21%	38%		19%	12%	20%		19%	14%
EBITDA	1.7	1.6	1.8	17%	3.1	3.1	3.3	7%	8.7	14.2
YoY change (%)	64%	-6%	11%		27%	1%	9%		37%	63%
EBIT	1.2	0.9	1.0	4%	1.8	1.8	1.9	3%	5.8	11.2
YoY change (%)	51%	-26%	-23%		30%	-1%	2%		63%	93%
Pretax Profit	0.9	0.5	0.5	6%	1.1	1.0	1.0	4%	4.2	9.6
YoY change (%)	-1%	-41%	-37%		-1%	-12%	-8%		185%	128%
Net profit	na	na	na	nm	na	na	0	nm	2.5	5.5
YoY change (%)	nm	nm	nm		nm	nm	nm		326%	125%

Source: Intermonte SIM

Valuation

For our valuation of Dmail, we use a sum of the parts method for the media commerce and the local media activities. We do not apply a holding discount, as there are significant synergies between the two businesses. In this report, we have decided to raise our valuation of the local media business, as we raised our estimates in light of better than expected 2Q results. Our increased valuation also incorporates the re-rating of media sector stocks. Our valuation of the media commerce business is broadly unchanged. The net effect is an increase in the fair value from Eu5.8 to Eu6.0. We provide details of our target price calculation in the table below.

LOCAL MEDIA	
2009E Dmail sales	30
Peers Multiple EV/Sales	0.9
Ev Local media	27
Total circulation ('000)	154
EV/Circulation (Eu)	176
COMMERCE	
2009E Sales	105.1
Peers Multiple EV/Sales	0.4
EV Commerce	40.6
GROUP EV	67.6
NFP 2009 Adj.	-22.5
Equity value	45.0
Mn shares	7.5
Value per share	6.0

Source: Intermonte SIM

FROM BUY TO OUTPERFORM, Target Price Move To Eu6.0

Dmail didn't disappoint and is still a great growth story with a business model that is resilient to the economic crisis and falling consumer spending. Our new SOP-based target prices reflects an upwards revision in the valuation of local media activities, as well as a general re-rating of media sector stocks. The next few months of the year will be the most important for the company and could surprise on the upside.

However, visibility is still low regarding a further increase in growth. For this reason, although we remain positive on the stock, we are lowering our recommendation from Buy to OUTPERFORM given that upside has decreased.

SHORT SALES: PROHIBITION EXTENDED, WITH AMENDMENTS, TO 31st JULY 2009

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BUY: stock expected to outperform the market by over 25% over a 12 month period;
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;
SELL: stock expected to underperform the market by over 25% over a 12 month period.

The stock price indicated is the reference price on the day prior to the publication of the report.

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BUY: 18.71%

OUTPERFORM: 25.18%

NEUTRAL: 40.16%

UNDERPERFORM: 12.95%

SELL: 2.88%

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OUTPERFORM: 14.29%

NEUTRAL: 47.61%

UNDERPERFORM: 0.00%

SELL: 0.00%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	DMAIL		
Current Recomm:	OUTPERFORM	Previous Recomm:	BUY
Current Target (Eu):	6.00	Previous Target (Eu):	5.80
Current Price (Eu):	5.49	Previous Price (Eu):	4.32
Date of report:	07/08/2009	Date of last report:	17/07/09

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