

DMAIL

BUY

SECTOR: Media

Price (Eu):

4.32

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Target Price (Eu):

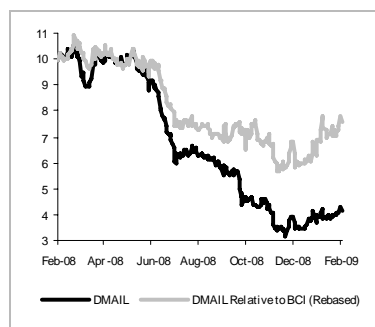
5.80

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Double Digit Growth Continues, But Investments in Development Are A Burden

- Double digit growth continues, but...** 4Q08 closed with consolidated turnover of Eu37.3mn, +27% YoY. Of this, Eu29.3mn was in the media commerce division, +37% YoY, and the remaining Eu8mn was in local media, +1% YoY. Consolidated EBITDA came to Eu2.3mn, -5% YoY, highlighting a different mix between commerce, +12% YoY, and local media, -17%. The strong growth in the commerce division is a very important result, given the current market context, as it confirms the validity and sustainability of the group's growth strategy in multi-channel distance sales. Consolidated pre-tax profit came to Eu0.6mn from Eu1.2mn last year. The difference can be explained by the increase in financial charges, which went from Eu0.3mn to Eu0.8mn. The net financial position, however, has improved significantly, going from Eu27.2mn at the end of September to Eu17.6mn thanks to impressive cash generation.
- ... investments burden profitability.** Quarterly results were in line at top line (our estimate Eu38.4mn), but at EBITDA level the difference was around 34.5%, which in absolute terms comes to just over Eu1.0mn, a difference which continues as far as pre-tax profit. The company therefore did not manage to take full advantage of the strong operational leverage that characterises the fourth quarter, in which a large part of turnover is concentrated. This can be explained, however, by the advance investment needed to support expansion of the media commerce business in 2009, both in Italy and abroad. Indeed, indications on the start of 2009 highlight growth of over 20%.
- 2009-10 EPS: -18% on average.** The reduced profitability in 4Q will not be recovered in 2009, a year in which we expect further investments aimed at supporting growth. While our turnover assumptions remain more or less unchanged, we have lowered EBITDA for the current year and the following one. The lower debt will have a positive impact on financial charges, alleviating the negative impact of the expected drop in profitability. The net impact is a downward revision of EPS by 24% for 2009 and 12% for 2010.
- BUY confirmed, target price moved to Eu5.8.** Dmail confirms its status as an attractive growth story, in spite of the adverse conditions for the consumer sector. 4Q results therefore justify our BUY recommendation, even though there are some disappointments on profitability, reflecting the investments needed to sustain growth. The target price has been revised to take into account the cut in estimates that has been partially eased by the structurally lower debt. The SoP valuation yields a target price of Eu5.8.

DMAIL - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 6.80 to 5.80

Change in EPS est:	2009E	2010E
	-24%	-12%

STOCK DATA

Reuters code:	DMA.MI
Bloomberg code:	DMA IM

Performance	1m	3m	12m
Absolute	16.1%	-1.0%	-57.3%
Relative	22.3%	9.0%	-12.7%
12 months H/L:	10.54/3.18		

SHAREHOLDER DATA

No. of Ord. shares (mn):	8
Total No. of shares (mn):	7
Mkt Cap Ord (Eu mn):	33
Total Mkt Cap (Eu mn):	33
Mkt Float - ord (Eu mn):	14
Mkt Float (in %):	41.7%
Main shareholder:	
Gianluigi Viganò	11.5%

BALANCE SHEET DATA

	2009
Book value (Eu mn):	35
BVPS (Eu):	4.63
P/BV:	0.9
Net Financial Position (Eu mn):	-17
Enterprise value (Eu mn):	50

Key Figures	2006A	2007A	2008A	2009E	2010E
Sales (Eu mn)	76	91	114	145	164
Ebitda (Eu mn)	6	5	6	9	14
Net profit (Eu mn)	0	1	1	3	6
EPS - New (Eu)	0.02	0.14	0.08	0.34	0.75
EPS - Old (Eu)	0.02	0.14	0.08	0.45	0.85
DPS (Eu)	0.10	0.10	0.02	0.07	0.15

Ratios & Multiples	2006A	2007A	2008A	2009E	2010E
P/E	nm	31.0	56.1	12.6	5.7
Div. Yield	2.3%	2.3%	0.5%	1.6%	3.4%
EV/Ebitda	9.4	9.8	8.0	5.6	3.4
ROCE	5.7%	6.0%	6.9%	12.4%	22.3%

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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	145	164
	EBITDA	6	5	6	9	14
	EBIT	3	3	4	6	12
	Financial income (charges)	(1)	(1)	(2)	(2)	(2)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	1	2	1	5	10
	Taxes	(1)	(1)	(1)	(2)	(4)
	Tax rate (%)	90.0%	56.6%	61.2%	45.6%	42.4%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	0	1	1	3	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	12
Net profit restated	0	1	1	3	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	0.33	0.74
	EPS restated fd	0.02	0.14	0.08	0.34	0.75
	BVPS fd	4.06	4.24	4.29	4.63	4.63
	Dividend per share (ord)	0.10	0.10	0.02	0.07	0.15
	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	8
	Change in NWC	(6)	(7)	4	(4)	(3)
	Capital expenditure	(3)	7	(1)	(1)	(2)
	Other cash items	(7)	1	(2)	0	0
	Free cash flow (FCF)	(11)	5	5	0	3
	Acquisitions, divestments & others	(3)	2	(1)	0	0
	Dividend	(1)	(1)	(1)	(0)	(1)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	(15)	6	3	0	3	
BALANCE SHEET (Eu mn)	Total fixed assets	44	50	43	43	43
	Net working capital	11	18	14	17	21
	Long term liabilities	(5)	(14)	(6)	(7)	(13)
	Net capital employed	51	53	50	53	50
	Net financial position	(20)	(21)	(18)	(17)	(15)
	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	33	33	33	33	33
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(20)	(21)	(18)	(17)	(15)
	Enterprise value	53	54	51	50	48
RATIOS(%)	EBITDA margin*	7.4%	6.1%	5.6%	6.2%	8.7%
	EBIT margin*	3.3%	3.5%	3.2%	4.4%	7.0%
	Gearing - Debt/equity	65.0%	66.7%	55.2%	50.6%	42.9%
	Interest cover on EBIT	2.2	4.3	1.7	3.8	6.8
	Debt/Ebitda	3.49	3.82	2.77	1.94	1.04
	ROCE*	5.7%	6.0%	6.9%	12.4%	22.3%
	ROE*	0.4%	3.3%	1.8%	7.5%	15.9%
	EV/CE	1.2	1.0	1.0	1.0	0.9
	EV/Sales	0.7	0.6	0.4	0.3	0.3
	EV/Ebit	20.8	17.2	14.1	7.9	4.2
Free Cash Flow Yield	-32.9%	14.3%	15.6%	1.0%	9.7%	
GROWTH RATES (%)	Sales	53.2%	19.5%	25.3%	27.3%	13.5%
	EBITDA*	15.2%	-2.0%	15.7%	41.8%	57.7%
	EBIT*	-21.1%	24.1%	14.3%	78.7%	79.6%
	Net profit	-89.0%	667.6%	-44.7%	343.8%	120.4%
	EPS restated	-89.0%	667.6%	-44.7%	343.8%	120.4%

* Excluding extraordinary items

Source: Intermonte SIM estimates

4Q 2008 Results

PROFIT&LOSS (Eu mn)	4Q08E	4Q08A	% A/E	FY08	1Q09	2Q09	2H09	FY09
SALES	38.4	37	-2.8%	114	31	27	87	145
YoY change (%) Adj.	30%	27%		33%	16%	21%	34%	27%
Operating Costs	35	35	0.3%	107	29	25	81	136
YoY change (%)	na	na		na	14%	24%	33%	26%
EBITDA	3.5	2.30	-34.5%	6	2	1	5	9
YoY change (%)	45%	-5%		45%	56%	-15%	64%	42%
EBIT	3	1	-45.5%	4	2	1	4	6
YoY change (%)	68%	-9%		63%	192%	-30%	117%	79%
Pretax Profit	1.8	0.6	-67.8%	1	1	1	3	5
YoY change (%)	50%	-52%		-38%	383%	-33%	714%	217%
Net profit	na	na	na	1	na	na	na	3
YoY change (%)	nm	nm	nm	nm	nm	nm	nm	344%

Source: Intermonte SIM

Valuation

Our valuation of Dmail is based on a sum of the parts model between the local media and media commerce divisions. For both we have used peer comparisons, which in the former case include Italian publishers (Espresso, RCS, Mondadori, Cairo Editore, Caltagirone Editore) while in the latter case it incorporates companies operating in e-commerce and distribution of electrical consumer goods on an international scale (Amazon, Home Retail Group, Takkt, Brown N, DSG International, Synnex Corporation, Esprinet). It takes into account that in the past the local media division has been a point of interest for national Italian publishers. Management has stated that, in the medium term, this division does not fit in with the path of the group's development, and could be sold. We aren't assuming any corporate action in the near future, but in any case we highlight the multiples at which the most recent transactions involving local newspapers have gone through, which are very high compared to the multiples at which Dmail's local media division is implicitly trading.

Dmail - Sop Valuation

LOCAL MEDIA

Most recent transactions in Italy

Magazine	EV	Sales	EV/sales
Il Gazzettino (2006)	230.0	60.0	3.8
Società Editrice Adriatica (2001)	24.0	9.5	2.5
Nuovo Quotidiano Puglia (2002)	31.2	9.5	3.3
Average			3.2

2009E Dmail sales

28

Peers Multiple EV/Sales

0.8

Ev Local media

22

Total circulation ('000)

148

EV/Circulation (Eu)

150

COMMERCE

2009E Sales

116.9

Peers Multiple EV/Sales

0.4

EV Commerce

45.1

GROUP EV

67.3

NFP 2009 Adj.

-23.9

Equity value

43.3

Mn shares

7.5

Value per share

5.8

Source: Intermonte SIM

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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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OUTPERFORM: 15.86%

NEUTRAL: 38.69%

UNDERPERFORM: 21.38%

SELL: 2.07%

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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:	BUY	Previous Recomm:	BUY
Current Target (Eu):	5.80	Previous Target (Eu):	6.80
Current Price (Eu):	4.32	Previous Price (Eu):	3.18
Date of report:	17/02/2009	Date of last report:	09/12/2008

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