

# DMAIL

# BUY

Price (Eu):

9.32

Target Price (Eu):

14.40

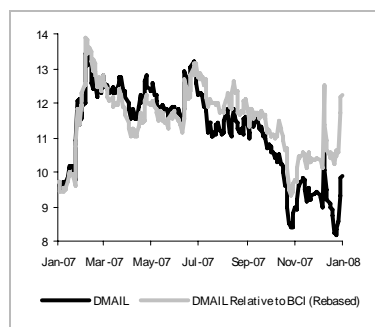
SECTOR: Media

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## Media Commerce Under the Spotlight

- 4Q07 results preview.** The last quarter is the most important quarter of the year for the group, as it is the period in which sales from the media-commerce division are concentrated. The Christmas period was very positive for distance sales (and especially e-commerce) with a great deal of success for specialist consumer electronics (+20% YoY in the context of slight growth in consumption) in which DMail is among the leaders in Italy through its subsidiary Bow.it (Eu25mn of sales out of Eu85mn for the consumer division, Eu105mn at consolidated level). We expect 14% YoY top line growth, which should be even greater at operating level thanks to the leverage that the company has in this business area. EBITDA should therefore come in at 3.3mn (10.6% of sales), considerably higher than the Eu1.8mn recorded in 2006, while EBIT is expected at Eu2.5mn (8%) from Eu0.9mn.
- 2008 and basic assumption.** In the financial year, DMail should enjoy the fruits of its aggregation and restructuring in the media commerce business, which in light of Christmas sales figures is showing a growth trend that is bucking that of traditional consumption, meaning we now consider 2008/09 top line estimates, which forecast growth of 20% and 12% respectively, to be visible. At operating level, after our recent downward revision of estimates, which discounts a cost inflation effect, we are confident that the group may hit its targets: 2008 EBITDA margin of 10.1%, rising to 10.9% in 2009.
- Expected newsflow.** According to press rumours, DMail and Mediaset may be close to an agreement regarding the sale of the group's e-commerce business. On 7<sup>th</sup> January, DMail and Mediaset signed a confidentiality agreement, which the market interpreted as the precursor to a takeover bid by Mediaset, interested in reinforcing its media shopping division. We consider this to be credible in light of the synergies that Mediaset could obtain through an integration of DMail's skills into its Mediashopping structure.
- Buy, target price Eu14.40.** DMail is an attractive mix of growth potential and speculative appeal. In our valuation model, which is based on an SoP for commercial activities and traditional media, we have not assumed any corporate action, but have in any case included a premium in light of the group's potential performance. Considering the current prices, with the stock trading at 14x P/E, i.e. at a premium to the market average, it is clear that the market is incorporating this possibility, at least in part.

### DMAIL - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2007E	2008E
	0%	0%

#### STOCK DATA

Reuters code:	DMA.MI
Bloomberg code:	DMA IM

Performance	1m	3m	12m
Absolute	-1.1%	-13.4%	-4.9%
Relative	11.2%	3.7%	15.8%
12 months H/L:	13.48/8.17		

#### SHAREHOLDER DATA

No. of Ord. shares (mn):	8
Total No. of shares (mn):	8
Mkt Cap Ord (Eu mn):	71
Total Mkt Cap (Eu mn):	71
Mkt Float - ord (Eu mn):	30
Mkt Float (in %):	41.7%
Main shareholder:	
Gianluigi Viganò	11.5%

#### BALANCE SHEET DATA

	2008
Book value (Eu mn):	36
BVPS (Eu):	4.67
P/BV:	2.0
Net Financial Position (Eu mn):	-23
Enterprise value (Eu mn):	94

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	0.25	0.67	0.92
DPS (Eu)	0.10	0.10	0.10	0.20	0.28

Ratios & Multiples	2005A	2006A	2007E	2008E	2009E
P/E	54.8	93.6	37.7	14.0	10.1
Div. Yield	1.1%	1.1%	1.1%	2.1%	3.0%
EV/Ebitda	15.7	16.2	12.7	7.6	5.9
ROCE	8.9%	6.1%	7.9%	15.6%	20.5%

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## DMail – 4Q07 Preview

### DMail 4Q'07

<i>Eu mn</i>	<i>Q4'06A</i>	<i>Q3'07A</i>	<i>Q4'07E</i>	<i>YoY %</i>	<i>FY '07E</i>
Sales	27.3	23.0	31.3	14.6%	105.2
Ebitda	1.8	1.1	3.3	83.3%	7.6
<i>margin %</i>	6.6%	4.9%	10.6%		7.2%
Ebit	0.9	0.3	2.5	190.0%	4.3
<i>margin %</i>	3.2%	1.1%	8.0%		4.1%
Net Financial Gain (Losses)	(0.4)	(0.3)	(0.3)		(1.1)
Pre-tax	0.5	0.0	2.2	<i>nm</i>	3.2
<b>Net Profit</b>					<b>1.9</b>

Source: Intermonte Sim

## DMail – Main Basic Assumption

### DMail - Commerce Division

<i>Eu mn</i>	2007E	%	2008E	%	2009E	%
		<i>yoy</i>		<i>yoy</i>		<i>yoy</i>
<b>DMAIL</b>	<b>33.7</b>	<b>16.6%</b>	<b>40.1</b>	<b>19.0%</b>	<b>46.4</b>	<b>15.6%</b>
internet	5.8	15.0%	6.7	15.0%	7.7	15.0%
mail	5.4	15.0%	5.9	10.0%	6.5	10.0%
call center	7.4	15.0%	8.2	10.0%	9.0	10.0%
shops	7.6	5.0%	8.3	10.0%	9.1	10.0%
others*	5.0	-9.1%	6.0	20.0%	7.0	16.7%
media commerce	2.5	n.m	5.0	100.0%	7.0	40.0%
<b>CAT</b>	<b>15.5</b>	<b>29.2%</b>	<b>17.0</b>	<b>9.7%</b>	<b>18.0</b>	<b>5.9%</b>
<b>BOW.IT**</b>	<b>25.0</b>	<b>nm</b>	<b>30.0</b>	<b>20.0%</b>	<b>35.0</b>	<b>16.7%</b>
<b>GDD**</b>	<b>16.0</b>	<b>nm</b>	<b>20.0</b>	<b>25.0%</b>	<b>20.0</b>	<b>0.0%</b>
<b>Total Sales</b>	<b>85.2</b>	<b>52.4%</b>	<b>102.1</b>	<b>19.8%</b>	<b>114.4</b>	<b>12.0%</b>
<b>Ebitda</b>	<b>7.2</b>	<b>30.6%</b>	<b>11.1</b>	<b>54.2%</b>	<b>13.4</b>	<b>20.2%</b>
	<i>% of sales</i>	<b>8.5%</b>	<i>% of sales</i>	<b>10.9%</b>	<i>% of sales</i>	<b>11.7%</b>

### DMail - Local media Breakdown

<i>Eu mn</i>	2007E	%	2008E	%	2009E	%
		<i>yoy</i>		<i>yoy</i>		<i>yoy</i>
circulation	7.0	27.3%	7.1	1.4%	7.3	2.8%
advertising	14.0	27.3%	15.0	7.1%	16.0	6.7%
other	3.0	-14.3%	3.0	0.0%	3.0	0.0%
<b>Total Sales</b>	<b>24.0</b>	<b>20.0%</b>	<b>25.1</b>	<b>4.6%</b>	<b>26.3</b>	<b>4.8%</b>
Cost of goods sold	-3.2		-3.4		-3.5	
	<i>% of sales</i>	13.3%	<i>% of sales</i>	13.3%	<i>% of sales</i>	13.3%
<b>Gross profit</b>	<b>20.8</b>	<b>20.0%</b>	<b>21.8</b>	<b>4.6%</b>	<b>22.8</b>	<b>4.8%</b>
	<i>% of sales</i>	86.7%	<i>% of sales</i>	86.7%	<i>% of sales</i>	86.7%
Services	-14.0		-14.5		-15.0	
	<i>% of sales</i>	58.3%	<i>% of sales</i>	57.8%	<i>% of sales</i>	57.0%
Personell	-4.4		-4.0		-4.0	
	<i>% of sales</i>	21.2%	<i>% of sales</i>	18.4%	<i>% of sales</i>	12.8%
<b>Ebitda</b>	<b>2.4</b>	<b>19.6%</b>	<b>3.3</b>	<b>35.4%</b>	<b>3.8</b>	<b>16.9%</b>
	<i>% of sales</i>	10.0%	<i>% of sales</i>	12.9%	<i>% of sales</i>	14.4%

Source: Intermonte SIM

## Dmail – Valuation Summary

### 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
<b>Average</b>			<b>3.2</b>

2009E Dmail sales	26.3
Lowest transaction multiple	2.5
<b>Ev Local media</b>	<b>65.8</b>

#### COMMERCE

2009E Ebitda Adj. (*)	11.4
Multiple of the traditional retail	5.0
<b>EV Commerce</b>	<b>56.9</b>

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

<b>Value per share</b>	<b>14.4</b>
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(\*) Net of holding costs

**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
<b>PROFIT &amp; LOSS (Eu mn)</b>	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	
<b>PER SHARE DATA (Eu)</b>	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%
<b>CASH FLOW (Eu mn)</b>	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	
<b>BALANCE SHEET (Eu mn)</b>	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	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	71	71	71	71	71
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(5)	(20)	(26)	(23)	(19)
	Enterprise value	76	91	97	94	90
<b>RATIOS(%)</b>	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	2.1	2.1	1.8	1.6	1.6
	EV/Sales	1.5	1.3	0.9	0.8	0.6
	EV/Ebit	23.9	33.7	22.7	10.3	7.6
Free Cash Flow Yield	8.9%	-15.2%	-2.3%	8.6%	11.7%	
<b>GROWTH RATES (%)</b>	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