

DMAIL

BUY

SECTOR: Consumers

Price (Eu):

12.28

Fabrizio Barini

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Target Price (Eu):

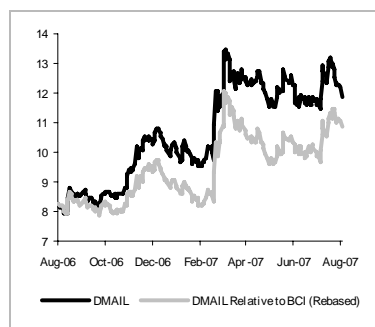
16.10

e-mail: fbarini@intermonte.it

Faster Growth, But Not Without Costs

- Consolidated sales +52% YoY, EBITDA +20% YoY.** In the second quarter, turnover came in at Eu26.4mn, +52% YoY, including +75% in Media Commerce (to Eu20.5mn) and +14% YoY in Local Media (to Eu6.1mn). This result came through both internal growth and an extension of the consolidation base. Group EBITDA came in at Eu1.6mn, +20% from 2006. The Media Commerce division brought in Eu1.5mn in EBITDA (+10% YoY), while the Local Media division closed with Eu0.57mn (+4% YoY). Pre-tax earnings were a positive Eu0.6mn, +95% YoY.
- Faster growth, but increasing costs.** 2Q results were above expectations in sales, but disappointed in terms of profitability. We expected sales at Eu25.5mn with EBITDA at Eu2.0mn and EBIT at Eu1.1mn. The difference from our expectations can be explained largely by higher costs for development, marketing and the integration of acquired companies. This had a positive effect on top line growth, effects that will be amplified in the rest of this year and next year, but the impact on margins will not be recovered.
- Estimates lowered for 2007, fine tuning for 2008.** Considering 2Q results, we have decided to raise out top line estimates but we are cutting margin estimates to account for higher development, marketing and integration costs. This leads to a 27% EPS reduction for this year. However, we have kept our 2008 estimates essentially unchanged (-1.3%), as we believe that next year, the company will bring out the full potential of its operating leverage after having reached an adequate critical mass.
- DMail Group has finalised the acquisition (60%) of a majority stake of Magicom.** DMail had already bought 40% of Magicom on 19th July. Currently, Magicom operates in the local advertising collection business in the North-West of Italy, but is now destined to become the vehicle through which DMail will acquire control of weekly publications that circulate in Piemonte, Liguria and Valle d'Aosta.
- BUY, target price Eu16.1 confirmed.** Second quarter results confirm that the group's business model is successful, as it is growing at higher than expected rates, even if development and integration costs have been more burdensome than foreseen. The reduction in estimates for this year does not change our valuation based on the unchanged prospective values. Ongoing activities in local media represent another option for growth, where value will be more visible as soon as the Magicom investment plan is complete.

DMAIL - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): Unchanged

Change in EPS est:	2007E	2007E
	-27%	-1.3%

STOCK DATA

Reuters code: DMA.MI
Bloomberg code: DMA IM

Performance	1m	3m	12m
Absolute	4.1%	2.3%	43.7%
Relative	9.5%	11.0%	33.1%
12 months H/L:	13.48/7.91		

SHAREHOLDER DATA

No. of Ord. shares (mn):	8
Total No. of shares (mn):	8
Mkt Cap Ord (Eu mn):	94
Total Mkt Cap (Eu mn):	94
Mkt Float - ord (Eu mn):	39
Mkt Float (in %):	41.7%
Main shareholder:	
Gianluigi Viganò	11.5%

BALANCE SHEET DATA

	2007
Book value (Eu mn):	49
BVPS (Eu):	6.44
P/BV:	1.9
Net Financial Position (Eu mn):	-21
Enterprise value (Eu mn):	115

	2005A	2006A	2007E	2008E
Sales (Eu mn)	45	49	76	114
Ebitda (Eu mn)	4	5	6	9
Net profit (Eu mn)	4	1	1	2
EPS - New (Eu)	0.57	0.17	0.10	0.29
EPS - Old (Eu)	0.57	0.17	0.10	0.40
DPS (Eu)	0.10	0.10	0.10	0.10

Ratios & Multiples	2004A	2005A	2006A	2007E	2008E
P/E	21.5	72.2	nm	42.7	16.0
Div. Yield	0.8%	0.8%	0.8%	0.8%	1.6%
EV/Ebitda	24.9	20.3	20.3	12.5	7.6
ROCE	7.1%	8.9%	6.1%	8.9%	13.4%

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2Q results: faster growth, but increasing costs

In the second quarter, turnover came in at Eu26.4mn, +52% YoY, including +75% in Media Commerce (to Eu20.5mn) and +14% YoY in Local Media (to Eu6.1mn). This result came through both internal growth and an extension of the consolidation base coming from Bow.it and GDD acquisition made in the middle of 2006.

Group EBITDA came in at Eu1.6mn, +20% from 2006. The Media Commerce division brought in Eu1.5mn in EBITDA (+10% YoY), while the Local Media division closed with Eu0.57mn (+4% YoY). Pre-tax earnings were a positive Eu0.6mn, +95% YoY. The holding closed with a net Ebitda of Eu-0.6mn.

Results were above expectations in sales, but disappointed in terms of profitability. We expected sales at Eu25.5mn with EBITDA at Eu2.0mn (8.0% of sales) and EBIT at Eu1.1mn (4.3%). The difference from our expectations can be explained, largely, by higher costs for development, marketing and the integration of acquired companies. This had a positive effect on top line growth, effects that will be amplified in the rest of this year and next year, but, according with company indication, the impact on margins will not be recovered in the coming quarters.

In the following table, we report the comparison between our estimates and the 2Q official results and the comparison between new and old FY2007 forecast.

		2006A					2007						
Eu mn	FY 2005A	1Q	Q2	Q3	4Q	FY	1QA	Q2E	Q2A	% A/E	FY 07 new	FY 07 old	% new/old
Sales	49.5	13.0	17.4	18.0	27.3	75.8	24.5	25.5	26.4	3.7%	113.7	102.6	10.8%
% change	9.5%	n.a	n.a	n.a	n.a	53%	88.2%	46.5%	51.9%		49.9%	35.3%	
Ebitda	4.9	1.2	1.4	1.2	1.8	5.6	1.4	2.0	1.6	-18%	9.2	9.0	2.5%
% margin	9.8%	9.5%	8.0%	6.8%	6.6%	7.4%	5.7%	8.0%	6.2%		8.1%	8.8%	
% change	18.3%	n.a	n.a	n.a	n.a	15.1%	13%	44.4%	20.0%		64.7%	60.7%	
Amm&Dep	-1.7	-0.4	-0.4	n.a	n.a	-3.0	-0.8	-0.9	-0.9	n.m	-3.8	-3.1	
Ebit	3.2	0.8	0.6	0.4	0.9	2.5	0.6	1.1	0.8	-28%	5.4	5.9	-8.1%
% margin	6.5%	6.5%	3.4%	2.0%	3.2%	3.3%	2.3%	4.3%	3.0%		4.8%	5.8%	
% change	29.6%	n.a	n.a	n.a	n.a	-21.1%	-32%	87.1%	29.0%		114.8%	133.8%	
Financial Costs	-0.6	-0.1	-0.2	n.a	n.a	-1.0	-0.3	-0.5	-0.2	n.m	-1.5	-0.7	n.m
Pre-tax	2.6	0.7	0.3	0.12	0.5	1.4	0.3	0.6	0.6	-2.0%	3.9	5.2	-24.6%
% margin	5.3%	5.7%	1.8%	0.7%	1.8%	1.8%	1.1%	2.4%	2.2%		3.4%	5.1%	
% change	25.0%	n.a	n.a	n.a	n.a	-48%	-64%	87.5%	83.8%		n.m	n.m	
Net profit	1.3	n.a	n.a	n.a	n.a	0.1	n.a	n.a	n.a	n.a	2.2	3.1	-27.0%
% change	n.m	n.a	n.a	n.a	n.a	n.m	n.a	n.a	n.a	n.a	n.m	m-m	

Source: Intermonte Sim

Estimates lowered for 2007, fine tuning for 2008

Considering 2Q results, we have decided to raise out top line estimates (+10.8%) but we are cutting margin estimates (Ebitda margin from 8.8% to 8.1%) to account for higher development, marketing and integration costs. This leads to a 27% EPS reduction for this year, also taking in account higher tax and financial costs based on company indication.

However, we have kept our 2008 estimates essentially unchanged (-1.3%), as we believe that next year, the company will bring out the full potential of its operating leverage after having reached an adequate critical mass.

Positive Newsflow from Local Media

DMail Group has finalised the acquisition of the majority (60%) of Magicom Srl. DMail had already acquired 40% on 19th July. Magicom is currently 100% owner of Publiser Srl, which is a local advertising collector in the North-West of Italy. Before the acquisition, Magicom will in turn acquire several local weekly newspapers currently held by Diffusione Grafiche SpA of the Giochetti family, which is one of the main publishers of local weeklies in Piemonte and Liguria. The Giochetti family publishes the following: *Il Canadese*, *La Nuova Periferia*, *La Nuova*, *La Riviera* (Liguria); *La Nuova Provincia* (Biella); *Notizia Oggi* (Vercelli), *Il Corriere di Asti* and up until recently, *La Vallée*, the top weekly in Val d'Aosta.

The deal will be made for Eu12,000, which corresponds to the market capital, plus Eu3.5mn for a rights issue. These resources will be required to buy the local weeklies from Diffusioni Grafiche. At the moment, Magicom is an "empty box" whose recapitalisation depends on the positive outcome of DMail due diligence and on the exact size of the acquisition, which will be announced as soon as the information is available. The closing of the deal is scheduled for 15th September.

DMail is therefore ready to close a big deal through Magicom. The company has been working for some time to make such a deal in local publications in Piemonte, Liguria and Val d'Aosta. On the whole, the titles could be worth 50,000 copies a week, to add to the 100,000 that DMail currently sells in Lombardy and Piemonte ts holding company DMedia.

In our estimates, we project an acquisition in publishing for 2007, which fits into the group's business plan. But the effect of the acquisition will depend on the numbers, which have not yet been disclosed. Ongoing activities in local media nonetheless represent further growth opportunities, where value creation will be visible once investment plans have been completed. In the following table, we report the current consolidation scope of local publications owned by DMail.

AREA	CIRCULATION	PRINTING	SALES
LOMBARDIA			
Lombardia in Europa*	125000	150000	
Lecco	25000	30000	
Giornale di Lecco			
Giornale di Merate			
Monza	26500	32000	
Giornale di Monza			
Giornale di Vimercate			
Giornale di Carate			
Giornale di Seregno			
Giornale di Desio			
Milano Est/Sud	18500	22000	
Gazzetta della Martesana			
Gazzetta dell'Adda			
Il sabato news del sud Milano			
Milano Ovest	18000	20000	
Settegiorni - Rho			
Settegiorni - Magenta e Parabiago			
Settegiorni - Bollate e Paderno Dugnano			
Como	29000	31000	
Giornale di Como			
Giornale di Erba			
Giornale di Cantù			
Bergamo	29000	31000	
Bergamo Sette			
Giornale di Treviglio			
Varese	6000	8000	
La settimana di Saronno e Tradate			
Sondrio	13000	16000	
Centro Valle - Giornale di Sondrio			
PIEMONTE			
Novara	8000	10000	
Novara Oggi			
TOTAL (net of free press)	173000	200000	100000

Source: Intermonte Sim. (*) Free Press

DMAIL - KEY FIGURES

	2004A	2005A	2006A	2007E	2008E	
Fiscal year end	30/12/2005	31/12/2005	31/12/2006	31/12/2007	31/12/2008	
PROFIT & LOSS (Eu mn)	Sales	45	49	76	114	132
	EBITDA	4	5	6	9	15
	EBIT	2	3	3	5	11
	Financial income (charges)	(0)	(1)	(1)	(2)	(1)
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	2	3	2	4	9
	Taxes	2	(1)	(1)	(2)	(4)
	Tax rate (%)	-106.9%	52.5%	54.5%	43.8%	37.9%
	Minorities & discontinue activities	(0)	0	0	0	0
	Net profit	4	1	1	2	6
	Total extraordinary items	0	0	0	0	0
	Ebitda excl. extraordinary items	4	5	6	9	15
Ebit excl. extraordinary items	2	3	3	5	11	
Net profit restated	4	1	1	2	6	
PER SHARE DATA (Eu)	Total shares out (mn) - average fd	8	8	8	8	8
	EPS stated fd	0.57	0.17	0.10	0.29	0.77
	EPS restated fd	0.57	0.17	0.10	0.29	0.77
	BVPS fd	3.42	4.27	4.06	6.44	9.71
	Dividend per share (ord)	0.10	0.10	0.10	0.10	0.19
	Dividend per share (sav)	0.00	0.00	0.00	0.00	0.00
	Dividend pay out ratio (%)	4.1%	48.4%	131.9%	15.8%	4.3%
CASH FLOW (Eu mn)	Gross cash flow	3	4	4	6	10
	Change in NWC	(2)	2	(6)	(5)	(3)
	Capital expenditure	0	0	(3)	0	0
	Other cash items	0	1	(7)	0	0
	Free cash flow (FCF)	1	6	(11)	1	7
	Acquisitions, divestments & others	1	(2)	(3)	(2)	(2)
	Dividend	0	(1)	(1)	(1)	(1)
	Equity financing/Buy-back	0	0	0	0	0
Change in Net Financial Position	2	3	(14)	(2)	4	
BALANCE SHEET (Eu mn)	Total fixed assets	28	33	44	45	44
	Net working capital	9	9	11	16	19
	Long term liabilities	(3)	(4)	(5)	9	29
	Net capital employed	35	38	51	70	91
	Net financial position	(8)	(5)	(20)	(21)	(17)
	Group equity	26	32	30	48	73
	Minorities	1	1	1	1	1
Net equity	26	33	31	49	74	
ENTERPRISE VALUE (Eu mn)	Average mkt cap - current	94	94	94	94	94
	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(8)	(5)	(20)	(21)	(17)
	Enterprise value	102	99	113	115	111
RATIOS(%)	EBITDA margin*	9.1%	9.8%	7.4%	8.1%	11.1%
	EBIT margin*	5.5%	6.5%	3.6%	4.8%	8.2%
	Gearing - Debt/equity	33.2%	15.9%	65.1%	44.0%	23.1%
	Interest cover on EBIT	6.3	5.3	2.6	3.6	7.8
	Debt/Ebitda	2.06	1.04	3.50	2.30	1.16
	ROCE*	7.1%	8.9%	6.1%	8.9%	13.4%
	ROE*	16.2%	4.2%	2.4%	5.5%	9.5%
	EV/CE	3.0	2.7	2.6	1.9	1.4
	EV/Sales	2.3	2.0	1.5	1.0	0.8
	EV/Ebit	nm	30.9	nm	21.2	10.2
Free Cash Flow Yield	0.7%	6.7%	-11.6%	1.2%	7.5%	
GROWTH RATES (%)	Sales		9.5%	53.3%	49.9%	16.4%
	EBITDA*		18.3%	15.2%	64.7%	59.1%
	EBIT*		29.6%	-15.6%	100.8%	100.5%
	Net profit		-70.8%	-38.3%	189.1%	167.0%
	EPS restated	nm	-70.3%	-41.4%	189.1%	167.0%

* Excluding extraordinary items

Source: Intermonte SIM estimates

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NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;
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	22.86%	30.86%	36.57%	9.14%	0.57%

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	44.44%	22.22%	33.34%	0.0%	0.0%

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DETAILS ON STOCK RECOMMENDATION

Stock NAME	DMAIL		
Current Recomm:	BUY	Previous Recomm:	BUY
Current Target (Eu):	16.10	Previous Target (Eu):	16.10
Current Price (Eu):	12.28	Previous Price (Eu):	9.70
Date of report:	07/08/2007	Date of last report:	22/02/2007

Further information is available