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Tuesday, 10th January, 2006 – Andrew Sentance

Dmail – Speculative buy

Target price € 9.8

Reasonable valuations, management's previous success and potential for the upward revaluation of media assets make me think that the stock could provide some positive surprises over the next few years

Dmail is a small retailer and newspaper publisher, which looks to have interesting potential in the coming years with the management that arrived in the 1st half of 2004. Previously, the CEO, De Carolis, built up Datanord Multimedia, subsequently Fullsix, from scratch to a company employing 700 people. After restructuring the business over the past year and a half, the pieces are now in place for the group to expand into the rest of Europe.

The company has concluded a joint venture with DocData of Holland, which will allow it to use their warehouses and software to open a series of sister websites around Europe at little extra cost. The stores and sites have been increasing their sales in Italy over the past year, despite the weak retailing environment, so it seems the concept has a certain appeal. Successful expansion over the coming years would represent the catalyst for the company, and I believe it is a reasonable bet to make, given the previous success of the management.

Further it looks like the local media unit could be the subject of interest as it represents a way for the other national media groups to gain a foothold in Lombardia. Caltagirone has been particularly active in this field recently.

The current valuation of € 9.8 per share does not incorporate any significant European growth or any revaluations of the property portfolio. Further the local media unit may prove more valuable to a buyer than I have estimated given the current political scenario. All-in-all, the prospects for the stock to appreciate strongly over the next few years seem to be there.

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BUSINESS OVERVIEW

Dmail shops and catalogues – through its website, www.dmail.it, catalogues and its call centre, the company sells a variety of household goods, health and beauty, garden and office products as well as a wide variety of small-scale consumer goods. The target market is the lower/middle class. There are currently 5 shops spread around the North/Centre of Italy, with 2 in Portugal.

CAT Import/Export – has a network of 2,000 sales points for its range of larger consumer and white goods.

Local Media – grouped under Gidiemme Stampa, the unit produces 14 local newpapers a week, which are sold in the Lombardia region and reach around 600,000 readers.

Sales by unit are shown below:

Dmail	2004	9 month 04	9 month 05
Revenues	21.5	13.504	15.275
EBITDA	1.921	1.004	1.215
EBIT	1.655	0.736	1.001

Company figures

CAT	2004	9 month 04	9 month 05
Revenues	11.9	8.191	7.586
EBITDA	2.767	1.735	1.51
EBIT	2.132	1.385	1.215

Company figures

Local Media	2004	9 month 04	9 month 05
Revenues	13.7	9.888	11.913
EBITDA	1.055	0.845	1.209
EBIT	0.439	0.448	0.723

Company figures

GROWTH OF MAIN MARKETS

Dmail - The Italian retail environment does not look terribly healthy with Confcommercio predicting a drop in consumer spending of 1.5% over the Christmas period, however on the back of the 14% rise in sales at Dmail during the 1st 9 months, it seems the company has found a formula of low prices combined with useful/amusing consumer goods that will allow the it to continue to buck the downward trend. Revenue growth in the region of 10/15% for the next 3 years looks possible as the company grows in Italy.

The recent agreement with DocData will see Dmail use its warehouses and software to create a European wide base to expand the Dmail concept. With the warehouse in Holland and the software in place, the incremental costs of expanding the business are related only to creating and managing the website for each country. This allows the company to grow the brand cheaply and easily, and could be the source of significant further growth for the company.

CAT – as seen at Indesit, CAT is suffering from higher raw materials costs and consumers that are unwilling to spend on goods with a higher ticket price. Given that CAT products are aimed at the lower end of the market, it may benefit if the Italian economy continues to show meager growth, however a likely slowdown in the housing market will probably balance any beneficial effects from this. A small decrease in revenues and declining margins look likely for the next 2/3 years.

Local media- After 2 years of declining revenues, revenues grew by 20.5% in the 1st 9 months of the year, particularly due to a 94% increase in other revenues (mainly add-ons sold with the newspaper). The developments in the next few years will see more emphasis on multi-media and the expansion of coverage in Lombardia. Encouraging was the fact that the number of copies sold increased by 2% in the 1st 9 months of the year. The company also completed the purchase of La Martesana in the 2nd half of 2005, to take the new of copies sold weekly to 140,000 and expand its coverage in Lombardia.

VALUATIONS

Dmail – 2005 results should grow at least in line with 9 month results. This would see revenues indicatively at € 24.5m, with EBITDA at € 2.35m and EBIT at € 2.05m. An EV/EBIT multiple of 12x would value the unit at € 24.6m.

CAT – assuming EBIT of € 1.65m for this year and an EV/EBIT multiple of 8x (Indesit trades at 9.3x), the enterprise value of the unit is € 13.2m.

Local media- looking at activity in Italy, in September, 2005, Caltagirone offered € 2,000 per copy sold for Il Gazzettino, the main daily newspaper for the Veneto region with an average of 116,000 copies per day. In June, 2004 Caltagirone also paid € 1,200 per copy (€ 24m) for Il Corriere Adriatico, a daily that sells 21,000 copies in the Marche region. At the moment, Gidiemme Stampa distributes 140,000 copies a week in Lombardia, with 700,000 readers.
Assuming that Gidiemme Stampa is worth less per copy because each edition is weekly, then given Lombardia's greater wealth and political attraction, I would argue a price of € 300 per copy could be justified. The unit is therefore worth € 42m.

This may seem expensive, but the experience of Il Gazzettino does show that people are willing to pay for the press. One might especially see this happening in an election year.

Other Assets – There are tax assets for € 3.9m. The company also has € 8m of property and is reviewing its portfolio of buildings to determine which can be sold and whether the portfolio can be managed more profitably.

Debt – net debt at the end of September, 2005, was € 2m and is projected to drop to € 0.3m at the end of the year

Holding Company – assuming € 1m of costs as with 2004 on 10x EV/EBIT multiple, the unit has a cost of € 10m.

Unit	Value in € m
Dmail	24.6
CAT	13.2
Local Media	42.0
Other	3.9
Debt	-0.3
Holding Company	-10.0
Total	73.4
Value per share	**9.59**

Main Ratios

	2005e	2006e	2007e	2008e	2009e	2010e	2011e
EV/EBITDA	15.51	12.37	10.97	10.07	9.59	9.23	9.04
EV/EBIT	21.17	16.09	13.79	12.40	11.89	11.33	11.05
P/E	38.72	25.89	21.48	18.81	17.95	17.09	16.68
EV/FCFF	98.18	24.10	20.91	19.33	17.66	17.01	16.03
FCFE yield	0.41%	3.79%	4.51%	5.01%	5.51%	5.73%	6.08%

Novagest estimates

DCF VALUATION

The DCF valuation sees fairly sustained revenue growth to 2008, with improving margins as the brand strengthens, see following page for details. Terminal growth is then at 2%. The discount rate used is 6.7%.

Investments slow after the heavy amount of investments made this year (over € 3m).

Sum of DCFs in € m	14.35
Terminal value in € m	62.65
EV in € m	77.00
Debt/(Cash) for 2005e	(0.75)
Capitalisation in € m	77.75
Price per share in €	**10.16**

Novagest estimates

PROFIT AND LOSS

	2005e	2006e	2007e	2008e	2009e	2010e	2011e
Revenues	49.9	54.1	58.0	62.6	65.1	67.7	69.1
Revenue growth	10.4%	8.5%	7.1%	8.0%	4.0%	4.0%	2.0%
EBITDA	4.49	5.6	6.3	6.9	7.3	7.5	7.7
% Margin	9.00%	10.40%	10.95%	11.05%	11.15%	11.15%	11.15%
EBIT	3.3	4.3	5.0	5.6	5.9	6.1	6.3
% Margin	6.59%	8.00%	8.71%	8.97%	9.00%	9.08%	9.12%
Financial expenses	-0.6	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Pretax	2.7	4.0	4.8	5.5	5.8	6.1	6.2
Taxes	-0.9	-1.3	-1.5	-1.8	-1.8	-1.9	-2.0
Net profit	1.8	2.7	3.3	3.7	3.9	4.1	4.2

Novagest estimates

ASSETS AND LIABILITIES

Assets	2005e	2006e	2007e	2008e	2009e	2010e	2011e
Immaterial fixed assets	16.3	16.2	16.2	16.2	16.2	16.2	16.2
Material fixed assets	9.7	9.7	9.7	9.7	9.8	10.0	10.2
Financial assets	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Inventories	5.3	5.4	5.6	5.8	5.9	6.1	6.3
Receivables	15.2	16.5	17.7	19.1	19.9	20.6	21.1
Other	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Cash	2.8	2.8	2.8	4.5	6.8	9.3	12.0
Total	54.0	55.4	56.7	59.9	63.3	66.9	70.4
Liabilities							
Trade payables	8.0	8.7	9.3	10.0	10.4	10.8	11.0
Other short term	4.8	5.2	5.6	6.0	6.4	6.8	7.2
Debt	6.0	4.2	2.1	1.7	1.7	1.7	1.7
Fondi per rischi	0.4	0.4	0.4	0.4	0.4	0.4	0.4
TFR	1.6	1.8	2.0	2.2	2.4	2.6	2.8
Other debt	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Equity	31.0	32.1	33.6	35.4	37.6	40.0	42.6
Net profit	1.8	2.7	3.3	3.7	3.9	4.1	4.2
Total	54.0	55.4	56.7	59.9	63.3	66.9	70.4

Novagest estimates

CASHFLOW

Free cash flow to Equity	2005e	2006e	2007e	2008e	2009e	2010e	2011e
Net profit	1.8	2.7	3.3	3.7	3.9	4.1	4.2
D&A	1.2	1.3	1.3	1.3	1.4	1.4	1.4
working cap +/-	0.7	-0.4	-0.3	-0.4	-0.1	-0.2	0.0
other +/-	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investments	-3.6	-1.2	-1.3	-1.3	-1.5	-1.6	-1.6
Free cash flow to Equity	0.3	2.7	3.2	3.5	3.9	4.0	4.3

Novagest estimates