



## Dreamscape Networks Limited (DN8.ASX)

*Established web business embarking on Asian expansion*

### Event:

- We initiate coverage on Dreamscape Networks (DN8).

### Investment Highlights:

- DN8 is a leading provider of domain name registration, hosting, and solutions products and services.** Strong growing, cash generative business with no debt, seeking to execute on growth in higher margin pillars.
- Effectively captured a **leading market share in Australian domain names (~30%)** and consequently a focal point for SMEs trying to build an online presence.
- The company's standing as a market leader in domain names means DN8 is in pole position for **upsell opportunities to higher value added services from its growing online products solutions**, including hosting and a range of bespoke online services.
- DN8 has effectively repositioned itself as a full-service affordable option** with a focus on customer care to improve retention and reduce churn, after having grown share and captured scale effectively since formation, using a low cost model.
- Domestic growth to come in all three pillars.** Continued upsell into higher value products will support strong growth in the Hosting and Solutions pillars.
- DN8 is preparing earnestly for expansion into Asia**, primarily targeting five English speaking countries including Singapore, Hong Kong, Indonesia, Malaysia, Philippines, with an **estimated addressable market of ~\$10B**. Even a modest slice of this incipient market would provide a significant boost to revenue for the company.
- The recent acquisition of Singapore based Vodien Group gives DN8 a significant foothold in the region, and launches **DN8 into number one for domain hosting in Singapore and number 2 in .sg domains**.
- A series of acquisitions during the year will add significantly to growth, with an **incremental pro forma \$5M FY18e EBITDA contribution**. Vodien gives DN8 a significant foothold in Singapore, while Net Logistics and Enetica will bolster the domestic business.

### Earnings and Valuation:

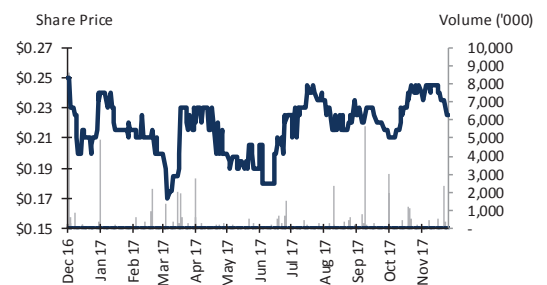
- We forecast **FY18e NPAT of \$4.0M, and \$4.9M in FY19e, and EPS of 1.1cps and 1.3cps**, respectively.
- We have a derived a DCF valuation of \$0.32/share**, using a 15% WACC and terminal growth assumption of 2.5%. We forecast almost 30% top line growth in FY18e as the business folds in a number of acquisitions, reverting to ~10% growth in the two years thereafter.

### Recommendation:

- We initiate coverage with a Buy recommendation and a 12-month price target of \$0.32, in line with our DCF valuation.**
- Catalysts for the share price** include: 1) increased end user numbers; 2) increased average booking per user (ABPU); 3) continued upsell into higher value products from DN8's significant domain name market share; 4) progress on the execution of Asian expansion; 5) further acquisitions.

<b>Recommendation</b>	<b>Buy</b>			
Previous	N/A			
Risk	High			
<b>Price Target</b>	<b>\$0.32</b>			
Previous Target	N/A			
<b>Share Price (A\$)</b>	<b>\$ 0.225</b>			
ASX Code	DN8			
52 week low - high (A\$)	0.17-0.26			
<b>Capital structure</b>				
Shares on Issue (M)	388			
<b>Market Cap (A\$M)</b>	<b>87</b>			
Net Cash/(Debt) (A\$M)	18			
<b>EV (A\$M)</b>	<b>70</b>			
Options, rights (M)	33			
12mth Av Daily Volume ('000)	261			
<b>June end (A\$M)</b>	<b>2017a</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Sales	46.4	59.6	66.1	73.2
EBITDA, underlying	4.5	8.5	10.0	10.3
<b>NPAT, underlying</b>	<b>2.1</b>	<b>4.0</b>	<b>4.9</b>	<b>5.1</b>
<b>EPS diluted (cps)</b>	<b>0.63</b>	<b>1.05</b>	<b>1.28</b>	<b>1.33</b>
<b>PER x diluted</b>	<b>35.6</b>	<b>21.4</b>	<b>17.6</b>	<b>17.0</b>
EV/EBITDA x	15.5	8.2	7.0	6.7
<b>Board</b>				
Mr Peter James	Non-Executive Chairman			
Mr Michael Malone	Non-Executive Director			
Mr Evan Cross	Non-Executive Director			
Mr Mark Evans	Managing Director & CEO			
Mr Gavin Gibson	Executive Director & COO			
<b>Major Shareholders</b>				
Bluegeko Holdings Ltd	36.4%			
Cloudsafe Holdings Ltd	24.3%			
Alvin Chiang	5.5%			
Jervis Wen	5.5%			

### Share Price Graph



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The analyst owns no DN8 shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) hold no DN8 shares.

Cranport Pty Ltd owns 2,700,000 DN8 shares.

This report was prepared by Foster Stockbroking.