



## Dreamscape Networks Limited (DN8.ASX)

### Consolidating Australian acquisition

#### Event:

- Acquisition of Domain Name Registrar; reconfirmed FY18e guidance.

#### Investment Highlights:

- Acquisition of Domain Name Registrar (DNR):** DN8 will acquire the customers, systems, and brand assets of DNR for \$8.5M. Consideration will be funded through DN8's facility, with no shareholder dilution. Acquisition is expected to be completed 1 July subject to customary conditions precedent, and fully integrated by 30 September.
- Consolidates DN8's Australian domain registration position:** DNR holds 0.9% .au market share and derives 80% revenue from registration with the remainder from hosting. DNR is expected to post \$2.5M FY18e revenue and \$1.5M in FY18e EBITDA (unaudited, pro forma), with an ABPU of \$146. The company expects the acquisition to be immediately EPS accretive in FY19e.
- Reconfirmed FY18e guidance:** The company announced on 2 May it expects to be at the upper end of **FY18e adjusted EBITDA guidance range of \$7.2–7.6M**, inferring an improvement over second half trading of \$4.4M in 2H18e, compared with adjusted EBITDA in 1H18a of \$3.2M. The company also noted the potential for exceeding the top end of FY18e adjusted EBITDA of \$7.6M if May and June performance replicated strong April trading. We expect a detailed trading update in coming weeks.
- We interpret the EBITDA guidance announcement as progress on **cost control over 2H as earlier promised**. The company has brought forward its office consolidation with a new centralised Singaporean head office, and closure of its offices in Perth and Dubai. The company had also intended to combine its data centre functions for Enetica and Quadra to its Sydney facility, as well as duplicate customer care operations for Vodien and Net Logistics into its existing Philippines customer care centre. We expect more details in the upcoming trading update.

#### Earnings and Valuation:

- We have revised our earnings and now forecast **FY19e NPAT of \$4.7M (previously \$3.2M), and \$7.2M in FY20e (\$5.1M), and EPS of 1.2cps and 1.9cps, respectively (0.8cps and 1.3cps)** as a result of the recent acquisition and progress on cost savings.
- Our valuation has decreased to \$0.245/share (previously \$0.265)** in line with our updated DCF valuation, adjusting for current net debt.

#### Recommendation:

- We maintain our Buy recommendation with a decreased price target of \$0.245 (previously \$0.265), in line with our DCF valuation.** We continue to hold the view the stock is attractively priced given its dominant domestic position and exposure to high growth markets in Asia.
- Catalysts for the share price** include: 1) executing on cost control and acquisitions synergies; 2) increased end user numbers; 3) increased average booking per user (ABPU); 4) continued upsell into higher value products from DN8's significant domain name market share; 5) further acquisitions.

Recommendation		Buy		
Previous		Buy		
Risk		High		
Price Target		\$ 0.245		
Previous Target		\$ 0.265		
Share Price (A\$)		\$ 0.12		
ASX Code		DN8		
52 week low - high (A\$)		0.11-0.245		
Capital structure				
Shares on Issue (M)		388		
Market Cap (A\$M)		47		
Net Cash/(Debt) (A\$M)		-3		
EV (A\$M)		49		
Options, rights (M)		33		
12mth Av Daily Volume ('000)		220		
June end (A\$M)				
Sales	46.4	61.8	70.2	77.5
EBITDA, underlying	4.5	7.1	9.1	12.5
NPAT, underlying	2.1	4.2	4.7	7.2
EPS diluted (cps)	0.63	1.10	1.21	1.86
PER x diluted	19.0	10.9	9.9	6.5
EV/EBITDA x	10.0	6.3	5.0	3.6
Board				
Mr Peter James		Non-Executive Chairman		
Mr Michael Malone		Non-Executive Director		
Mr Evan Cross		Non-Executive Director		
Ms Ng Shin En		Non-Executive Director		
Mr Mark Evans		Managing Director & CEO		
Mr Gavin Gibson		Executive Director & COO		
Major Shareholders				
Bluegeko Holdings		36.4%		
Cloudsafe Holdings		24.3%		
Jervis Wen		5.5%		

#### Share Price Graph



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The analyst does not own DN8 securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own DN8 securities.

Cranport Pty Ltd owns 3,191,317 DN8 shares.

Refer to end of report for details.

This report was prepared by Foster Stockbroking.