



Dreamscape Networks Limited (DN8.ASX)

Second Half Recovery to Provide FY19e Momentum

Event:

- FY18a results; revised earnings, valuation, and PT.

Investment Highlights:

- DN8 reported its FY18a results**, with highlights including revenue of \$61.6M, up 32% YoY and in line with FSBe (\$61.2M), as the company brought on a number of acquisitions through the year and experienced strong top line growth.
- Hosting pillar strong:** the company demonstrated good Bookings growth in the main pillars of Hosting (+45% YoY to \$32M) and Domains (+9% to \$26.8M), while Bookings growth in Solutions was more subdued (+2% to \$6.3M). We had expected Hosting to be strong given the Vodien customer composition, and pleasantly surprised it exceed our expectations. Solutions growth was a disappointing aspect of the result, undershooting our expectations.
- Strong second half performance:** 2H18a saw a HoH improvement in Bookings across all pillars with Hosting +24% HoH, Domains +13%, and Solutions +10%.
- Changing business profile to higher margin, higher growth segments:** Hosting overtook Domains as the main revenue generator for the company over FY18a, while International originated Bookings now account for almost a quarter of Bookings.
- Looking for further cost control:** cost of sales and operating costs also grew 31% and 40% YoY over FY19a to eat into top line growth, though the company did slightly improve underlying EBITDA margin to 12%.
- FY18a underlying EBITDA of \$7.5M** was a slight beat vs FSBe of \$7.2M, while the company reported adjusted EBITDA of \$10.3M above the upper end of recently upgraded guidance range of \$9.4-9.8M.
- Underlying NPAT of \$3.6M** (-16% FSBe of \$4.2M) was a miss, as a result of higher than expected D&A charge and finance expense.
- The company had **\$5.6M cash at balance date, and \$11.8M in debt.**

Earnings and Valuation:

- We have revised our earnings and now forecast **FY19e NPAT of \$4.2M (previously \$4.7M), and \$5.5M in FY20e (\$7.2M)** with rebased increased D&A charge and tax expense the main drivers for decreased forecast earnings.
- Our valuation has decreased to \$0.225/share (previously \$0.245)** as a result of lower forecast earnings and higher net debt.

Recommendation:

- We maintain our Buy recommendation with a decreased price target of \$0.225 (previously \$0.245), 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	\$ 0.225			
Previous Target	\$ 0.245			
Share Price (A\$)	\$ 0.11			
ASX Code	DN8			
52 week low - high (A\$)	0.11-0.245			
Capital structure				
Shares on Issue (M)	389			
Market Cap (A\$M)	43			
Net Cash/(Debt) (A\$M)	-6			
EV (A\$m)	49			
Options, rights (M)	31			
12mth Av Daily Volume ('000)	231			
June end (A\$M)	2018a	2019e	2020e	2021e
Sales	61.6	68.4	75.4	82.6
EBITDA, underlying	7.5	9.0	10.7	12.0
NPAT, underlying	3.6	4.2	5.5	6.9
EPS diluted (cps)	0.93	1.08	1.42	1.77
PER x diluted	11.8	10.2	7.7	6.2
EV/EBITDA x	6.5	5.4	4.6	4.1
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	36.3%			
Cloudsafe Holdings	24.1%			
Jervis Wen	5.5%			



Analyst: Matthew Chen +61 2 9993 8130

matthew.chen@fostock.com.au

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.