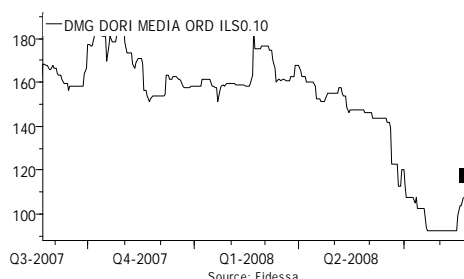


Dori Media 117.5p
A Great Story Continues

29 August 2008

Share Price: 117.5p



12m High: 205p

12m Low: 85p

Market Cap: £25m

Shares in Issue: 24m fully diluted

NAV/Share: 88p

Gearing: 26%

Interest Cover: 14x

EPIC Code: DMG.L

Sector: Media

Market: London AIM

Broker: Daniel Stewart

PR: Shared Value

Website: www.dorimedia.com

Description: A media company which produces and broadcasts telenovelas and operates TV channels.

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Dori Media's Interims continues a series of strong results. Revenues more than doubled, with a strong performance from the telenovela business and a first time contribution from the new HOT channels and net profits rose 86%.

- While revenues rose 119% gross margins fell owing to the lower margins on the new HOT business and start up costs as expected.
- Revenues from telenovela broadcasting and format rights more than doubled, from USD 5.3m to USD 11.9m.
- Revenues from TV channels increased from USD 2.2m to USD 14m, with a strong performance from the Indonesian TV business as well as the HOT contribution.
- 'LaLola' has become a major hit for DMG, winning 9 Martin Fierro awards in Argentina (including overall best programme), and selling to 52 countries worldwide.
- DMG is continuing to push into new media the second half of this year will see it launch the first internet telenovela, 'Amando O!'
- As usual, DMG will be exhibiting at MIPCOM in October, at which time we hope to have news on new contracts.
- We retain our forecasts unchanged. These results demonstrate the company is on track to meet our full year expectations. The share price has fallen in line with the media sector since our last note – however, the company's prospects are substantially better than those of most (advertising heavy) media companies.

Y/E	Sales	Declared Profit	Adj. Profit	Adj. EPS	P/e Ratio	Dividend	Yield
December	USDm	USDm	SDDm	USc			%
6/2006A	20.4	5.1	6.6	28.3	7.6	-	-
6/2007A	30.0	8.2	8.7	34.5	6.2	-	-
12/2008/E	61.0	10.1	12.6	39.3	5.4	-	-
12/2009/E	82.5	13.0	15.5	43.7	4.7	-	-

* EPS forecasts have been adjusted for options issued in August 2008, which amount to 13% of the issued share capital

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Dori Media's interim results show strong progress. The company's revenues more than doubled, with a strong contribution from the telenovelas business and a first time contribution from the new HOT channel. Gross margins fell, as expected, since the HOT business has a different cost base from the telenovela production and marketing business, and also incurred start up costs. (Content acquisitions reflected in the cost of goods have risen from USD 0.4m to USD 9.1m.)

Sales and marketing expenses decreased as the lower percentage of merchandising in the product mix led to a decrease in sales commissions paid out. However, other expenses increased by 74% as the establishment of Dori Media America Inc expanded the staff base. DMG now has 150 employees in total. Overall, tight management enabled the cost increases to be kept below the rate of revenue growth; operating profit increased by 87% and with minimal finance expenses and the tax rate coming in at just under 20%, this increase in profits fell directly through to the bottom line.

USD	H1	H1	+/-
m	2007	2008	%
Revenue	12.7	27.8	+119
Cost of sales	3.5	14.6	+318
Gross profit	9.2	13.1	+43
Gross margin	72.5%	47.3%	
Sales and marketing expenses	3.4	2.7	-20
Other expenses	3.3	5.8	+74
EBIT	2.5	4.6	+87
EBITA	4.5	8.4	+86
Finance expenses	-0.2	-0.3	+114
Pretax	2.4	4.3	+83
Tax	-0.5	-0.8	+70
Net profit	1.9	3.5	+86
EPS	0.09	0.14	+56

The company's business mix has changed since the last interim results, largely due to a huge increase in the subscription fees from TV channels. Revenues from this source rose from USD 2.2m last time to USD 14m this half year. While this reflects the contribution of the new HOT channel, the performance of the Indonesian pay-TV business was also good, with revenues rising from USD 5.3m to USD 11.9m.

Telenovelas did well with broadcasting rights revenues up 173% and format fees rising by 36%. The weak area in these results, though, was merchandising and publishing, which declined from USD 4m to just USD 0.8m. This had been expected, partly due to a change in the mix of telenovelas, as a highly popular teenage format came to an end. (A rebound should be seen in future as 'Rebelde Way' and 'Patito Feo' exhibitions are set up in Portugal and France respectively.)

During this period, the group greatly increased its investment in programming, with programme rights acquisition rising from USD 1.8m in the first half of last year and USD 5.4m in the second half, to USD 7.5m this time. The group expects to have some 4,870 hours of TV programming in its library by the end of the year, a 13% increase on last year, as well as a number of telenovela webisodes and other new media content. Net debt consequently rose from USD 2.7m to USD 11m, giving gearing of 26% on the expanded balance sheet. However, the group remains strongly cash generative at the operating level.

New business

We have been impressed with the number of new deals DMG is bringing in. During the first half of the year, and subsequently, the group has reported a number of new ventures and agreements with major broadcasters.

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- DMG has signed a three year extension with Israeli broadcaster HOT for its Viva and Viva Platina channels. This will run from 1 January 2009 to 2012, and we understand that the terms are broadly the same as those of the existing contract. DMG's contract with Israel's second pay-TV broadcaster, 'Yes', does not expire until 2010. This gives the group a stable platform for its Israeli business.
- Sony Pictures Television signed an agreement to develop and produce a US version of 'LaLola ' - a highly successful telenovela which follows the adventures of a man who wakes up one morning to find he has turned into a woman. Subsequently, Fox has commissioned a pilot for Q1 2010.
- Grupo Televisa has signed a five year deal worth USD 9.5m (including contractual options). This gives DMG a strong relationship with the Spanish-speaking world's largest broadcaster.
- The group is beginning to diversify away from being a pure telenovela producer, first with its general entertainment and movies channels on HOT, and most recently with its new agreement with Ginx Entertainment. DMG will provide a video gaming channel for Ginx on PT MNC Sky Vision, in Indonesia, under a ten year agreement.

The outlook for the year remains positive. We will get a better feel for 2009 forecasts once we hear from MIPCOM in October.

Valuation

Although DMG has continued to make good progress with its business, the shares have performed poorly, sinking from around 150p to just above the one pound level. This is in line with the media sector, in which sentiment has been knocked by profit warnings from newspapers and other print media companies, as well as by a poor performance from bellwether ITV. However, DMG is not exposed to the same pressures as these companies – it is not advertising dependent, and is geographically diverse, with increasing sales into Asia and Africa as well as high exposures in Latin America and Israel.

The shares remain lowly valued, trading at under 6 times next year's earnings, putting them at a wide discount to the sector. With expected earnings growth above 10 percent, the shares look attractive.

Management	Major Shareholders
<p>CEO and President: Nadav Palti</p> <p>Chairman: Tamar Moses-Borovitz</p> <p>Vice-Chairman: Yair Dori</p> <p>External independent directors: Michael Rosenberg, Nathaniel Charles Sebag-Montefiore</p>	<p>Mapal Eden Telenobles Ltd 33.58%</p> <p>Miella Venture Partners Inc 21.72%</p> <p>Mapel Communication Ltd 8.33%</p> <p>Mr Yair Dori 5.39%</p> <p>BF Holdings GmbH 4.19%</p>
Key Dates	Key Milestones
<p>Next Full Year Results: February/March 2009</p> <p>AGM: April 2009</p> <p>Next Interim Results: August 2009</p>	<p>1996 Dori Media founded by Mr Yair Dori</p> <p>1999 DMG launches VIVA free-to-air telenovela channel in Israel, with the launch of pay channel VIVA Platina coming the subsequent year</p> <p>2002 DMG establishes its international distribution activities</p> <p>2005 DMG comes to London AIM market</p>

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