

IDEIASNET

2Q06 Result



18/08/2006

INVESTMENT ANALYSIS

IDEIASNET
(IDNT3: R\$ 2.90)

Target Price: **R\$ 4.27**
 Recommendation: **ATTRACTIVE**
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Market Value (R\$ mm)	P/E (x)			Firm Value (R\$ mm)	FV/EBITDA (x)			Market Value/ Net Revenues 06E (x)	P/BV (x)	Pay-Out 2006E (%)	Div. Yield 2006E (%)
	05	06E	07E		05	06E	07E				
217.7	Neg	NA	NA	213.5	32.8	19.7	10.9	0.72	4.3	-	-

Net sales of the combined portfolio, i.e. the consolidation of the parts equivalent to the stakes held by IdeiasNet in each investment, came to R\$ 80.9 million in 2Q06, and were higher than our expectations of R\$ 68.2 million but the **operating result was regular and slightly below our projections**. The net income from the combined portfolio came to R\$ 547,000 in the quarter compared with R\$ 21,000 in 2Q05. The accumulated net income in 1H06 amounted to R\$ 972,000 compared with an accumulated loss of R\$ 642,000 in 1H05.

The **highlight** of the result was the increase of 30.1% in sales by Officer in 2Q06 over the same period last year. On the other hand, the **EBITDA from the combined portfolio in 2Q06** of R\$ 2.1 million was lower than expected, mainly because of the greater contribution from Officer to the result, since the margins in the information technology distribution area are much lower than those in the other areas of investment.

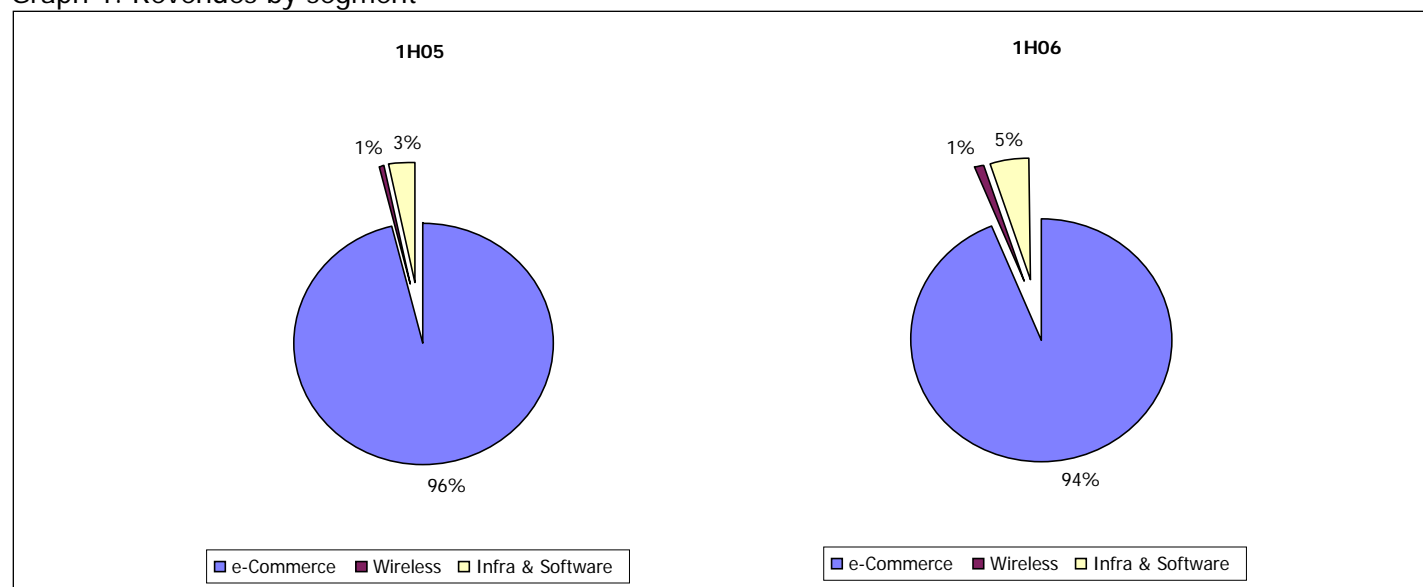
Table 1. P&L Combined Portfolio

(R\$ million)	2Q06	2Q06E	2Q05	2Q06/ 2Q06E	2Q06/ 2Q05	1H06	1H05	1H06/ 1H05
Net sales	80.9	68.2	11.0	18.6%	635.5%	142.7	23.1	517.6%
Costs and operating expenses	78.9	65.5	10.9	20.5%	624.9%	139.4	20.4	583.6%
Operating income	2.0	2.7	0.1	-26.7%	-	3.3	2.7	21.6%
EBITDA	2.1	2.7	0.5	-23.0%	300.0%	3.6	0.4	716.0%
EBITDA margin	2.6%	4.0%	4.8%	-1.4 p.p.	-2.2 p.p.	2.5%	1.9%	0.6 p.p.
Net income	0.5	-	0.0	-	-	1.0	(0.6)	-

Operating Performance

The **combined gross revenues in 1H06 rose by 30.2%** over the same period last year (including the pro-forma result of Officer, which was only acquired in December 2005) to R\$ 182.4 million, for the following main reasons: (1) an increase of 32.5% in sales volume by Officer, boosted mainly by the start of sales of Intel products from March 2006; and (2) a rise of 109.6% in revenues from the infrastructure and software sector, driven mainly by the expansion of sales in Padtec.

Graph 1. Revenues by segment



Source: Company

The combined EBITDA in 1H06 rose to R\$ 3.6 million (margin of 3%) from negative EBITDA of R\$ 1.0 million in 1H05 (including Officer), due to the gains of scales from the operations of the invested companies, e.g. the participation of general and administrative expenses fell from 18.6% of net revenues in 1H05 to 12.2% in 1H06, and the larger participation by the more profitable infrastructure and software segment in the consolidated results.

However, in 2Q06, the **combined EBITDA was 1.4 p.p. below our expectations**, due to the larger contribution made by Officer in the result. This was because the margins in the distribution of information technology products sector are lower than in the other areas (e.g. infrastructure and software, where the EBITDA margin in 1H06 came to 10%).

Investments/Financial Situation

The **investments** of the holding company in the invested companies in 2Q06 came to R\$ 895,000 and to R\$ 2.234 million in 1H06. They were distributed as follows: R\$ 601,000 for the e-commerce segment (Softcorp), R\$ 232,000 for Spring Wireless, and R\$ 1.401 million for Idéias Ventures (R\$ 833,000 for iMusica, R\$ 222,000 for Trinnphone and R\$ 346,000 for the other companies).

The investments were financed from IdeiasNet's cash, which fell to R\$ 5.5 million on 30/06/06 from R\$ 7.2 million on 31/03/06.

The **net debt in proportion** to the stakes held in the invested companies, on the other hand, fell from R\$ 1.9 million on 31/03/06 to R\$ 1.3 million on 30/06/06. As a result, the combined net cash at the end of 2Q06 came to R\$ 4.2 million compared with R\$ 5.3 million the previous quarter.

Outlook

The companies within the IdeiasNet portfolio **will continue to grow significantly** in the coming years due to the expected expansion of the Information Technology (IT) market. In the **e-commerce** area, the main representatives, Officer and Softcorp, will continue to benefit from the fall in the so-called grey market. At the same time, in the case of Officer, the recent addition of products from Intel, which in just three months of sales have become the company's fifth-largest sales line, will help keep sales buoyant.

In the **infrastructure and software** area the ongoing needs for investments by the telephony operators in infrastructure, particularly related to broadband, will boost the growth of operations by Padtec, which in 2Q06 gained electronic competition from Brasil Telecom amounting to R\$ 11 million.

For the **wireless** segment, the maturity of the investments in Spring Wireless, as well as the conclusion of the consolidation process with Sysgold in 2Q06, will allow stronger growth and higher profitability.

Finally, in the **Idéias Ventures** segment, iMusica made a deal in 2Q06 to sell music from Universal and Sony BMG. By doing so, it became the only digital music company in Brazil which is able to sell 100% of the content of the largest recording companies in the country. Besides this, it also reached agreement with the manufacturer of Nokia cellulators to sell the content and installation of stores with the iMusica brand on the handsets. Despite this, we do not expect any significant results from this area in the short term.

We continue with our **ATTRACTIVE** recommendation for IdeiasNet shares.

Valuation Method used to Calculate the Target Price of Shares in IdeiasNet: discounted cash flow at an average rate of 15.5% p.a. and growth to perpetuity of 7.0% p.a..

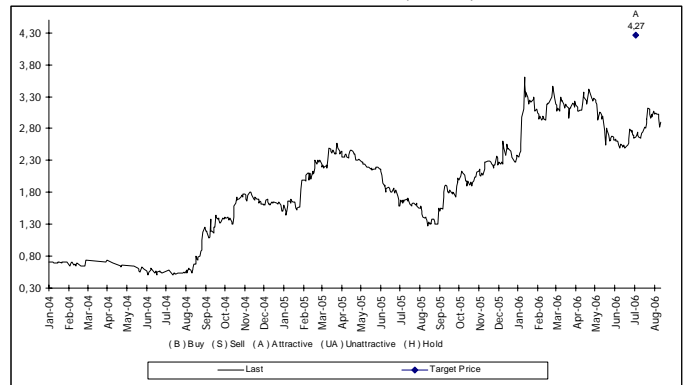
Risk Assessment: The IdeiasNet business model is highly sensitive to the performance of the economy, particularly levels of popular income.

The current investment analyst began covering the shares of **IdeiasNet** on 12/07/2006.

Previous Recommendations:

Date	Recommendation	Target price (R\$/share)
12/7/06	Attractive	4.27

Share Price, Target Price and Performance of Fator Corretora Recommendation for shares in IdeiasNet. (IDNT3)



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Recommendation	Criteria	Distribution	
		Quantity	% of total
Buy	The total return of the share is expected to be significantly above Ibovespa's variation.	30	36,6
Outperform	The total return of the share is expected to be above Ibovespa's variation.	22	26,8
Hold	The total return of the share is expected to be in line with Ibovespa's variation.	18	22,0
Underperform	The total return of the share is expected to be below Ibovespa's variation.	12	14,6
Sell	The total return of the share is expected to be significantly below Ibovespa's variation.	0	0,0
Total		82	100,0

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