

DHH Group

Sector: Cloud Computing



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Strong 1H - Quite “immune” to Covid-19

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration

Strong set of financial results in 1H20

1H20 pro-forma results came almost in line with our full-year estimates, but for margins that have been positively impacted by some cost savings across business units, and provide evidence that: i) the company keeps growing in a challenging environment (total revenues at €9.1mn, +8.3% YoY), ii) significant margin upside is emerging (EBITDA Margin at 38.9%, +384bps YoY), iii) subscription based business model generates sound cash flows (OpFCF at 65% of EBITDA), and iv) Net Debt is not a problem at all (almost zero in 1H20 vs. €2.2mn as of Dec’19).

Estimates broadly unchanged, but for margins slightly up

We have updated our 2020E PF-22 estimates, with EBITDA and EPS revised up by 4% and 6% on average, leading to slightly higher FCFs. New forecasts imply for the next three years 11% and 15% like-for-like CAGR for sales and EBITDA respectively, with EPS expected to double (from €0.40 in 2019PF to €0.85 in 2022E). DHH should increase its Net Cash Position up to €8.7 in 2022E, leaving room for potential M&A.

Merger to strengthen leadership in cloud computing

In our opinion the new Group, coming from the merger with Seeweb, (to be effective within October) leverages on several strengths, such as: exposure to a fast-growing reference market; provisioning of a full range of top quality solutions to meet most demanding customers; ownership and management of physical and network infrastructures; scalable and profitable business model fuelled by a highly innovative mindset also involving an intense corporate venture capital activity.

At the same time, we hint a possible concern arising from the competition by tech giants, mitigated by the extremely personalized approach that DHH-Seeweb maintains towards its customers.

Fair value up at €18.5 per share (from €18.0)

We update **DHH fair equity value at €18.5 per share**, (from previous €18.0), compared to current €12.0 stock market price. Our fair value would imply 2021E multiples of 3.5x EV/Sales, 9.7x EV/EBITDA and 13.0x EV/OpFCF, in line with domestic tech companies listed on AIM Italia.

Fair Value (€)	18.5
Market Price (€)	12.0
Market Cap. (€m) (*)	54.2

(*) Calculated on number of shares post RTO finalization

KEY FINANCIALS (€mn)	2019PF	2020EPF	2021E
REVENUES	16.8	18.2	20.5
EBITDA	5.6	6.3	7.4
EBIT	2.5	3.0	4.3
NET PROFIT	1.7	2.0	2.9
EQUITY	14.2	16.2	19.2
NET FIN. POS.	-2.2	1.1	5.2
EPS (€)	0.40	0.44	0.65
DPS (€)	0.00	0.00	0.00

Source: DHH Group (2019PF), Value Track (2020E-21E estimates)

RATIOS & MULTIPLES	2019PF	2020EPF	2021E
EBITDA MARGIN (%)	33.5	34.5	36.0
EBIT MARGIN (%)	15.1	16.8	21.1
NET DEBT / EBITDA (x)	0.39	nm	nm
NET DEBT / EQUITY (x)	0.15	nm	nm
EV/SALES (x) (**)	2.1	2.7	2.2
EV/EBITDA (x) (**)	6.3	7.7	6.0
EV/EBIT (x) (**)	13.9	15.9	10.3

Source: DHH Group (2019PF), Value Track (2020E-21E estimates)

(**) EV adjusted for peripherals and treasury shares and based on number of shares post RTO finalization

STOCK DATA

FAIR VALUE (€)	18.5
MARKET PRICE (€)	12.0
SHS. OUT. (m) (***)	4.5
MARKET CAP. (€m) (***)	54.2
FREE FLOAT (%)	24.8
AVG. -20D VOL. (#)	3,555
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	4.80-12.30

Source: Stock Market Data

(***) Post RTO finalization



Business Description

DHH is a tech group that provides cloud computing solutions in SaaS solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

Nowadays, there are eleven businesses under management across five countries (Croatia, Italy, Serbia, Slovenia and Switzerland).

DHH aims to consolidate leadership position in such countries thus benefitting from the natural growth trend already in place.

Key Financials

€ mn	2018PF	2019PF	2020E PF	2021E
Total Revenues	15.9	16.8	18.2	20.5
Chg. % YoY	nm	+6%	+8%	+13%
EBITDA	3.7	5.6	6.3	7.4
EBITDA Margin (%)	23.2%	33.5%	34.5%	37.0%
EBIT	2.4	2.5	3.0	4.3
EBIT Margin (%)	15.0%	15.1%	16.8%	21.1%
Net Profit	1.7	1.8	2.0	2.9
Chg. % YoY	nm	+8%	+4%	+46%
Adjusted Net Profit	1.7	1.8	2.0	2.9
Chg. % YoY	nm	+8%	+4%	+46%
Net Fin. Position	3.1	-2.2	1.1	5.2
Net Fin. Pos. / EBITDA (x)	nm	0.4x	nm	Nm
Capex		-0.8	-1.5	-2.3
OpFCF b.t.		5.7	4.3	5.5
OpFCF b.t. as % of EBITDA		101%	68%	75%

Source: DHH Group (historical figures), Value Track (estimates)

Investment case

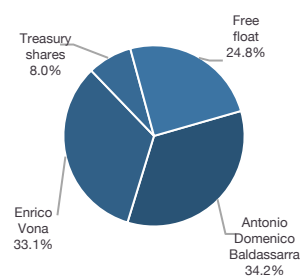
Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ Outstanding track record in digital business and M&A activities
- ◆ High profitability ratios, sound Free Cash Flow generation deriving from subscription-based recurring revenues business model

Weaknesses / Risks

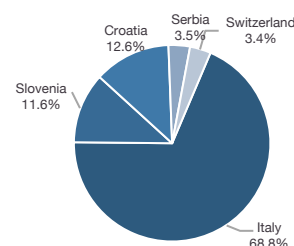
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



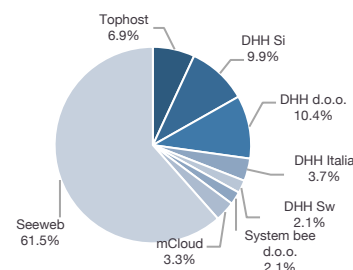
Source: DHH Group

Sales breakdown by country



Source: DHH Group

Sales breakdown by legal entity



Source: DHH Group

Stock multiples @ €18.5 Fair Value

	2020EPF	2021E
EV / SALES (x)	4.2	3.5
EV / EBITDA (x)	12.1	9.7
EV / EBIT (x)	24.8	16.5
EV / Cap. Empl. (x)	5.0	5.1
OpFCF Yield (%)	5.5	7.7
P / E (x)	nm	28.5
P / BV (x)	5.2	4.4
Div. Yield. (%)	0.0	0.0

Source: Value Track

Investment Summary

DHH: The South-East Europe Cloud Computing provider

As result of the merger with Seeweb, expected to be effective within the end of October, DHH is a leading Group in the cloud computing arena, providing virtual infrastructures in SaaS and IaaS mode.

In less than five years from the IPO on AIM Italia, the Group has successfully finalized several acquisitions, reaching the highest point with the incorporation of Seeweb, the Italian pioneer of cloud computing solutions, establishing in such way a new combined entity with 2019 pro-forma turnover at €16.8mn, 33.5% EBITDA Margin and EBITDA cash conversion ratio close to 100%.

Several positives...

Within the new guise, the Group leverages on several strengths, such as:

- ◆ **Exposure to a fast-growing reference market**, likely to grow at 15%-20% and fueled by the increasing “digital needs”, with cloud computing as an essential tool for innovation;
- ◆ **Provisioning of a full range of top-quality solutions** to meet most demanding customers, ranging from domain registration and transfer to hosting, from cloud servers, housing and colocation to ready to use IoT solutions, bundle solutions and consultancy activities
- ◆ **Ownership of physical and network infrastructures**, with both the internet backbone and all six datacentres connected to each other and to other Italian and foreign PoPs through an optical fiber ring,
- ◆ **Scalable and profitable subscription-based business model**, allowing higher customer retention, auto-renewal subscription, minimal duration and a better cash flow management
- ◆ **Highly innovative mindset also involving an intense corporate venture capital activity**, investing in internal projects, through strategic partnerships, or following a corporate venture capital approach, fine tuning in this way value proposition and business model, and acquiring technological know-how.

...one main concern

Cloud computing market is extremely competitive, with tech giants like Amazon Web Services, Microsoft Azure, Google Cloud, IBM Cloud and Alibaba Cloud, which hold an aggregated market share greater than 70%. But, at the same time it is extremely fragmented and highly domestic by nature, with local-based companies continuing to play a key role.

However, different from aforementioned big players which mostly offer standardised solutions, the Group offers custom solutions to meet each client’s need. Thus, if most providers are forced to keep up with the competitive pricing set by the major players, on the other side clients often prefer local services.

Now is time to keep pushing on growth

We expect the Group to keep pushing on innovation, both in terms of internally fueled product / solutions innovation and in terms of M&A strategy. Main goals ahead are:

- ◆ **Increasing ARPU**, through the shift towards premium products and the launch of proprietary solutions to stay ahead any technological trend;
- ◆ **Developing new strategic relationships** with web agencies, specialized partners, system integrators or software houses, extremely important to accelerate the growth path and the market penetration, thus allowing the enhancement of retention rate;
- ◆ **Boosting M&A activity**, also thanks to strong execution capabilities acquired so far in finalizing several acquisitions. We believe the Group would exploit further transactions to consolidate market coverage, enter in new geographies and/or in new market segment.

For further details on the investment case and company features, please refer to our latest “in depth update”, published back on July 7th

Solid 1H20 in “challenging times”

DHH has reported a strong set of financial figures in the first half of the year, posting positive YoY growth across P&L, together with a strong cash generation capability, being almost immune to the recent global economy slowdown linked to Covid-19 outbreak.

Interim results based on pro-forma schemes (i.e. assuming the reverse take-over of Seeweb into DHH occurred as of 2019 1st January) highlight a steady and healthy business development, featured by an extremely high incidence of recurring revenue. The core messages we get from results are the following:

- ◆ **Revenues were up at high single digit rate;**
- ◆ **Improved efficiency led to a sharp increase in profitability;**
- ◆ **Sound operating cash flow generation**, i.e. OpFCF on EBITDA at 65%;
- ◆ Results were overall in line with our full-year expectation, but for margins, which came in slightly higher.

DHH Group: 1H20 PF Key Financial Items

(€mn)	1H19 PF	1H20 PF	YoY (%)
Total Revenues	8.4	9.1	8.3%
EBITDA	2.9	3.5	20.2%
EBIT	1.4	2.0	41.6%
Net Profit	1.1	1.3	22.7%
Net Fin. Position [Cash (+)]	-2.2*	-0.1	
OpFCF after tax	--	2.3	

Source: DHH, Value Track analysis (*) as of Dec'19

High single digit revenues growth

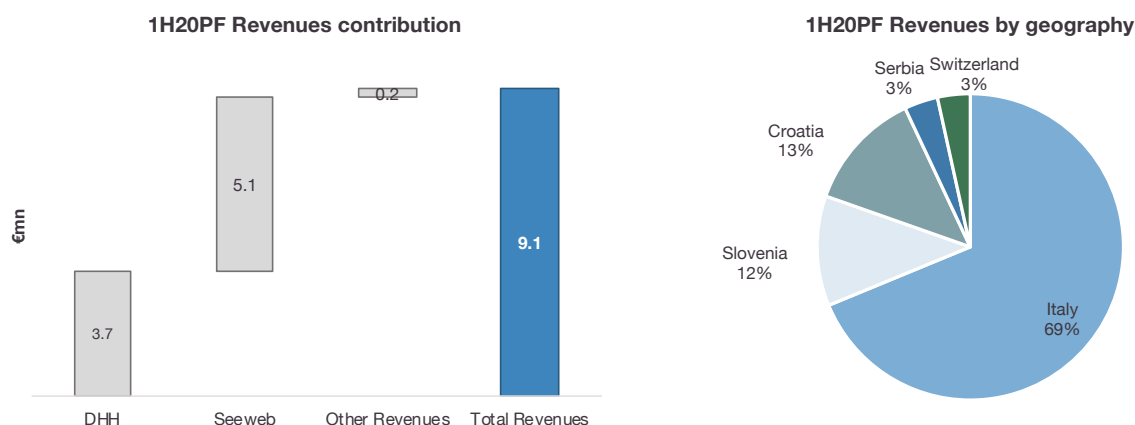
Total Revenues came in at €9.1mn in 1H20, growing +8.3% YoY on a pro-forma basis, thanks to an overall business expansion across all business units and geographies.

Hence, cloud computing business is showing to be extremely resilient to the current global crisis, with all legal entities within the new consolidation perimeter quite able to mitigate negative implications to coronavirus worldwide spread.

Looking at the single contribution to consolidated pro-forma figures, we highlight a double-digit growth for the “old” DHH, with revenues at €3.7mn (+10.1% YoY), and a lower increase recorded by Seeweb with turnover at €4.9mn (+3.9% YoY). Total revenues also benefit from a higher incidence of “other revenues”, which stood at €240K.

Moving to revenues breakdown by geography, we reckon **a steady increase in foreign revenues which account for ca. 30% of total**, at €2.8mn (ca.+21.0% YoY), consistent with Group strategy to consolidate market coverage particularly in the Balkans. More, a sound performance was also achieved in Switzerland, with premium solutions delivered by Italian/Swiss brand Artera more than double YoY. On the other side, domestic revenues were almost flat YoY at €6.1mn (+0.8% YoY), mainly due to some slowdown in market demand experienced by Tophost, the Italian leading player for entry level solutions in the web hosting and cloud computing field.

DHH Group: 1H20 PF Revenues analysis



Source: Value Track analysis on companies' data

Improved efficiency led to margin upside

The Group experienced some margin expansion in 1H20, with **EBITDA Margin posting an increase of 384bps from 35.0% to 38.9% of total revenues**, with EBITDA moving from €2.9mn in 1H19 PF to €3.5mn as of 1H20 PF (+20.2 % YoY), thus growing more than proportionally to turnover growth.

The main drivers of such margin improvement are:

- ◆ **Different product mix**, through the launch of new proprietary solutions with high margins and the **increasing incidence of recurring revenues**;
- ◆ **Lighter labour cost structure**, which decreased by ca. €0.2mn (-13.4% YoY), thanks to a more efficient organization of labour force across business units (particularly in Slovenia) and further cost savings faced by Seeweb;
- ◆ **Greater efficiency achieved by the “old” DHH**, i.e. 1H19 profitability was extremely penalized by non-recurring items due to the intense M&A activity undergone so far.

DHH Group: From Revenues to EBITDA in 1H19 and 1H20

(€ mn)	1H19 PF	1H20 PF	YoY (%)
Revenues from Sales	8.3	8.9	6.4%
Other Revenues	0.1	0.2	>100%
Total Revenues	8.4	9.1	8.3%
COGS	-3.6	-4.0	
Labour costs	-1.7	-1.4	
Other Operating costs	-0.2	-0.2	
EBITDA	2.9	3.5	20.2%
o/w DHH	0.2	0.5	>100%
Seeweb	2.7	3.0	10.7%
EBITDA Margin (%)	35.0%	38.9%	+384bps

Source: Company figures, Value Track Analysis

Below the EBITDA, substantially unchanged D&A charges led to a sound increase in Operating Profit, with **EBIT at €2.0mn (+41.6% YoY), and margin at 22.3% (+ 523bps)**.

Roughly €100K financial expenses and €0.6mn taxes (30% tax rate, slightly higher YoY) made Net Profit close to €1.3mn (+22.7%).

DHH Group: Pro-Forma Profit & Loss in 1H19 and 1H20

(€ mn)	1H19 PF	1H20 PF	YoY (%)
EBITDA	2.9	3.5	20.2%
D&A	-1.5	-1.5	
EBIT	1.4	2.0	41.6%
EBIT Margin (%)	17.0%	22.3%	+523bps
Net Financial Charges	-0.1	-0.1	
Non-Operating. items	0.2	0.0	
Pre-tax Profit	1.5	1.9	25.8%
Taxes	-0.4	-0.6	
Tax rate (%)	-28.1%	-30.0%	
Net Profit	1.1	1.3	22.7%

Source: Company figures, Value Track Analysis

Sound operating cash flow generation, i.e. OpFCF on EBITDA at 65%;

As for the Balance Sheet / Cash Flow Statement, we just note that:

- ◆ **Capex at €0.7mn**, of which ca. one half relates to intangible assets (€356K), and the remaining stake due to tangible investments (€255K), and right of use assets (€121K). As a result, Net Fixed Assets at €18.8mn, mainly made of M&A originated goodwill (10.6mn) and inflated by RoU (€4.8mn);
- ◆ **Still negative and basically flat working capital**, slightly improving as % of Revenues (from 16% as of Dec'19 to 15.2% at the end of June'20), positively benefitting from unearned revenue;
- ◆ **Improving Net Financial Debt**, which came in almost nil (€0.1mn), -€2.0mn vs Dec'19, underlying a strong OpFCF generation, at ca. €65% of EBITDA.

DHH Group: Strong cash generation in 1H20PF



Source: Company figures, Value Track Analysis

DHH Group: Pro-Forma Balance Sheet in 1H19 and 1H20

(€ mn)	1H19 PF	1H20 PF
Net Working Capital	-2.7	-2.8
As % of Revenues	-16.0%	-15.2%
Net Fixed Assets	19.6	18.9
Provisions	0.6	0.6
Total Capital Employed	16.4	15.5
Group Net Equity	14.2	15.4
Net Financial Position	-2.2	-0.1

Source: Company figures, Value Track Analysis

Update of 2020E PF-onward financial forecasts

Taking into account 1H20 PF figures, we are slightly revising our 2020E-22E estimates based on the following drivers:

- ◆ **Downward revision of Opex** cut on average by 2% per year to factor the higher efficiency in costs structure already achieved in 1H20;
- ◆ **Downward revision of D&A charges**, cut by ca. €100 per year over the forecast period;
- ◆ Financial expenses and tax rate revised slightly up, in line with 1H figures.

DHH Group: New vs. Old estimates

(€'000)	2020E PF			2021E			2022E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	18.2	18.2	0.0%	20.5	20.5	0.0%	23.1	23.1	0.0%
EBITDA	6.0	6.3	4.7%	7.1	7.4	4.1%	8.2	8.5	3.5%
EBIT	2.7	3.0	14.3%	3.9	4.3	9.8%	5.2	5.6	7.5%
Net Profit	1.8	2.0	9.0%	2.8	2.9	5.0%	3.7	3.8	3.8%
Net Fin. Pos.	1.0	1.1		5.0	5.2		8.5	8.7	
OpFCF a.t.	3.3	3.4	2.0%	4.1	4.3	4.7%	3.5	3.6	2.1%

Source: Value Track Analysis

That said, our **new 2020E PF-22E forecasts** can be summarized as follows:

- ◆ **Total Revenues expected to increase at 11% CAGR up to 2022E;**
- ◆ **Operating profitability progressively increasing** over the next three years with EBITDA and EBIT margin expected respectively at 37.0% and 24.3% in 2022E;
- ◆ **Favourable Working Capital dynamics**, as a result of the subscription-fees based model that should partially offset Capex charges, leading to an **EBITDA / OpFCF conversion ratio after tax in the 50% - 60% region**, and to an **increasingly positive Net Cash Position**, up to ca. €8.7mn as of 2022E Year-end, likely to be exploited for further M&A deals.

DHH Group: 2019A PF – 2022E P&L

(€mn)	2019A PF	2020E PF	2021E	2022E	CAGR ^{19A-22E}
Total Revenues	16.8	18.2	20.5	23.1	11%
COGS	-7.3	-8.3	-9.2	-10.1	
Labour costs	-3.3	-3.0	-3.3	-3.7	
Other costs	-0.5	-0.6	-0.7	-0.7	
EBITDA	5.6	6.3	7.4	8.5	15%
<i>EBITDA Margin (%)</i>	<i>33.5%</i>	<i>34.5%</i>	<i>36.0%</i>	<i>37.0%</i>	
Depreciation & Amortization	-3.1	-3.2	-3.0	-2.9	
EBIT	2.5	3.0	4.3	5.6	30%
<i>EBIT Margin (%)</i>	<i>15.1%</i>	<i>16.8%</i>	<i>21.1%</i>	<i>24.3%</i>	
Net Fin. Charges	-0.2	-0.2	-0.2	-0.1	
Non-Operating Items	0.2	0.0	0.0	0.0	
Pre-tax Profit	2.5	2.9	4.2	5.5	29%
Tax	-0.8	-0.9	-1.3	-1.6	
<i>Tax rate (%)</i>	<i>-29.9%</i>	<i>-30.0%</i>	<i>-30.0%</i>	<i>-30.0%</i>	
Group Net Profit	1.8	2.0	2.9	3.8	29%

Source: DHH, Value Track Analysis

DHH Group: 2019A PF – 2022E P&L

(€mn)	2019A PF	2020E PF	2021E	2022E
Net Fixed Assets	19.6	17.9	17.2	17.9
Net Working Capital	-2.7	-2.1	-2.5	-2.8
Severance Pay and Other Funds	0.6	0.7	0.7	0.7
Total Capital Employed	16.4	15.2	14.0	14.3
Group Net Equity	14.2	16.2	19.2	23.0
Net Fin. Position [Net debt (-)]	-2.2	1.1	5.2	8.7

Source: DHH, Value Track Analysis

DHH Group: 2020E PF – 2022E Cash Flow Statement

(€mn)	2020E PF	2021E	2022E
EBITDA	6.3	7.4	8.5
Operating WC requirements	-0.6	0.4	0.3
Capex (not including Financial Investments)	-1.5	-2.3	-3.7
Change in provisions	0.1	0.0	0.0
OpFCF b.t.	4.3	5.5	5.3
Cash Taxes	-0.9	-1.3	-1.6
OpFCF a.t.	3.5	4.2	3.6
Net Financial charges	-0.2	-0.2	-0.1
Dividends paid	0.0	0.0	0.0
Change in Net Fin. Position	3.2	4.1	3.5

Source: DHH, Value Track Analysis

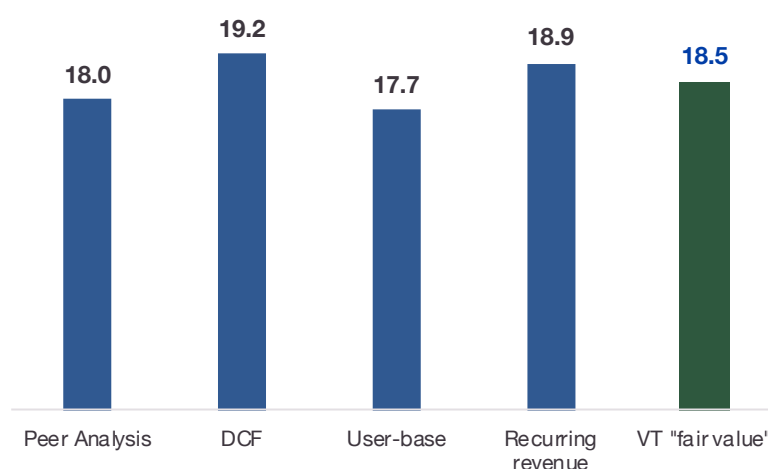
Valuation Update

DHH shares currently trades at €12.0 market price, or 7.7x EV/EBITDA and 11.4x EV/OpFCF based on 2020E pro-forma forecasts.

As an effect of upwards estimates revision and updated sector multiples, we are **slightly increasing DHH fair value to €18.5 per share**, up from €18.0 of our previous valuation released on July.

Our valuation is the result of the simple average of four different valuation methodologies: peers' analysis, DCF model, user-based valuation and recurring revenue analysis. (For further details on valuation criteria and selected peers, please refer to our latest "in depth update", published back on July 7th).

DHH Group: Our updated "fair value" at €18.5 per share



Source: Value Track Analysis

We believe that the encouraging results delivered in 1H20, the business resiliency and the incoming "kick-off" of the reverse take-over of Seeweb into the Group (expected to be effective within the end of October) should support a stock re-rating and start reducing the discount to peers DHH shares are currently trading at. Our updated fair value would imply 2021E multiples of 9.7x EV/EBITDA and 13.0x EV/OpFCF, basically in line with peer' average.

Here below, we provide a sensitivity analysis of DHH stock trading multiple

DHH Group: Sensitivity of implicit stock trading multiples in the €15.5 - €21.5 share price range

Share price (€)	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x) (*)	
	2020E PF	2021E	2020E PF	2021E	2020E	2021E
€ 15.5	3.4	2.8	9.9	7.9	14.5	10.5
€ 17.0	3.8	3.2	11.0	8.8	16.1	11.8
€ 18.5	4.2	3.5	12.1	9.7	17.7	13.0
€ 20.0	4.5	3.8	13.1	10.6	19.3	14.2
€ 21.0	4.9	4.1	14.2	11.5	20.9	15.4

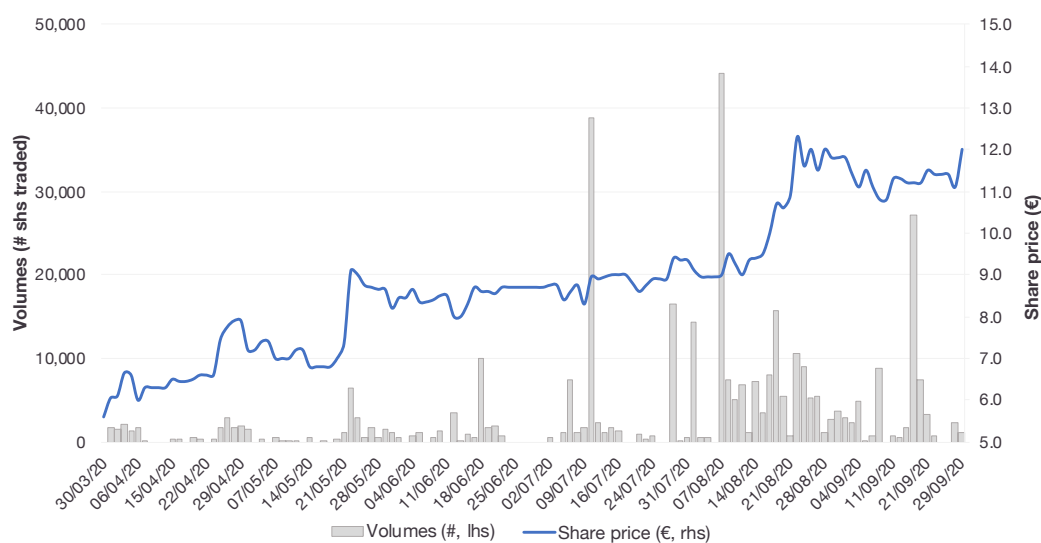
Source: Value Track Analysis (*) OpFCF calculated as EBITDA-Capex (**) not including treasury shares

Being a cloud computing and web hosting provider, DHH is among those companies less impacted by the current global economy slowdown. More, Covid-19 pandemic has proven the benefits of the the online presence and visibility, driving the “new normal” through the increasing adoption of “digital habits”, such as smart working, e-commerce and so on.

Indeed, DHH share price has already experienced some multiple rerating across the latest six months, and it is currently trading on its maximum at €12.0, i.e. 50% 3-m performance, far away from ca. €5.0 as of March.

However, in our opinion, share price is only partially embedding DHH business resiliency and robustness, with the Group able to *i*) be almost “immune” to the adverse impact linked to Covid-19, *ii*) still pursue a steady business expansion together with a significant margin upside (EBITDA margin at 39%), and lastly to *iii*) deliver a sound cash generation, with OpFCF at roughly 65% of EBITDA.

DHH: Share price evolution over the last 6months



Source: Value Track Analysis

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