

DHH Group

Sector: Internet Software and Services



Analysts

Marco Greco

+39 02 80886654

marco.greco@value-track.com

Pietro Nargi

pietro.nargi@value-track.com

Pro-forma FY20 Gross Sales up 7% y/y

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

Pro-forma FY20 Gross Sales in line with estimates

DHH released consolidated unaudited pro-forma FY20 Gross Sales up 7% y/y at €18.1mn, in line with our FY20 top-line estimate (18.2mn), despite some slowdown in business development in 4Q20 (€4.8mn +4% y/y).

Looking at pro-forma FY20 figures, positive results were recorded across all geographies in which DHH is active:

- ◆ Italy marked the largest y/y growth in absolute terms, with Gross Sales +€0.44mn y/y at €12.3mn, basically in line with the growth path already recorded in 1H/9M'20;
- ◆ Switzerland, albeit numbers remain still small (Gross Sales at €0.7mn), boasted the highest increase of Gross Sales in percentage terms, +94% y/y, thanks to the successful commercial repositioning of Artera brand;
- ◆ The Slovenian subsidiary also increased double-digit, with Gross Sales at €2.1mn, +17% y/y, positively benefitting from the contribution of Si-Shell business unit acquired back in Dec'19, and from the increasing market penetration (currently among Top100 of all EURid registrars, with 42% market share for “eu” domains);
- ◆ Low-single digit growth was recorded in Croatia, with Gross Sales at €2.3mn, (+2% y/y), underlying a continuous increase of market share (now at. ca 25%) and of the total number of customers (ca. 20k);
- ◆ Serbia Gross Sales were up +7% y/y at €0.6mn, with operations steadily growing, also thanks to continuous efforts in marketing activities.

2020E-22E estimates unchanged

FY20 Gross Sales are in line with our FY20 top-line estimate. We maintain unchanged our 2020E PF-22E estimates, which envisage: i) 3yr like-for-like CAGR of 11% and 15% for Sales and EBITDA respectively, with EBITDA margin steadily above 35% level; ii) EPS to almost double by 2022 to €0.85; iii) €11mn cumulated FCF generation in 2020E-22E, leaving room for potential M&A.

€18.5 fair value per share confirmed

At current €11.2 market price, DHH shares are trading at undemanding 2021E multiples, 5.6x EV/EBITDA and 8.0x EV/OpFCF, implying a huge discount vs. domestic tech companies listed on AIM Italia. We believe the sound fundamentals of DHH deserve a higher market value and we confirm our fair value at €18.5 per share.

Fair Value (€) **18.5**

Market Price (€) **11.2**

Market Cap. (€m) **50.6**

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	2.5	2.0
EV/EBITDA (x (**))	6.3	7.2	5.6
EV/EBIT (x (**))	13.9	14.9	9.5

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

(**) EV adjusted for peripherals and treasury shares

STOCK DATA

FAIR VALUE (€)	18.5
MARKET PRICE (€)	11.2
SHS. OUT. (m)	4.5
MARKET CAP. (€m)	50.6
FREE FLOAT (%)	20.4
AVG. -20D VOL. (#)	2,830
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	4.96-13.40

Source: Stock Market Data



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	2019PF	2020E PF	2021E	2022E
Total Revenues	16.8	18.2	20.5	23.1
Chg. % YoY	+6%	+8%	+13%	12.3%
EBITDA	5.6	6.3	7.4	8.5
EBITDA Margin (%)	33.5%	34.5%	36.0%	37.0%
EBIT	2.5	3.0	4.3	5.6
EBIT Margin (%)	15.1%	16.8%	21.1%	24.3%
Net Profit	1.8	2.0	2.9	3.8
Chg. % YoY	+8%	+4%	+46%	31.1%
Adjusted Net Profit	1.8	2.0	2.9	3.8
Chg. % YoY	+8%	+4%	+46%	31.1%
Net Fin. Position	-2.2	1.1	5.2	9.7
Net Fin. Pos. / EBITDA (x)	0.4x	nm	nm	nm
Capex	-0.8	-1.5	-2.3	-2.6
OpFCF b.t.	5.7	4.3	5.5	6.3
OpFCF b.t. as % of EBITDA	101%	68%	75%	74.0%

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

Investment case

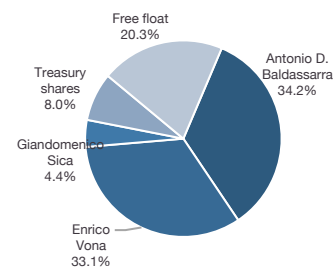
Strengths / Opportunities

- ◆ 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

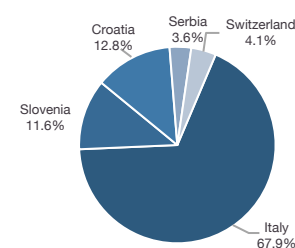
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



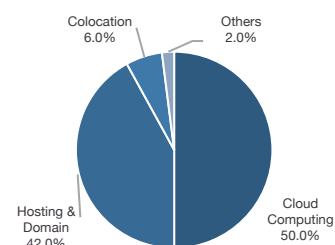
Source: DHH Group

Gross Sales by country



Source: DHH SpA

Sales breakdown by business line



Source: DHH SpA

Stock multiples @ €18.5 Fair Value

	2021E	2022E
EV / SALES (x)	3.5	2.9
EV / EBITDA (x)	9.7	7.9
EV / EBIT (x)	16.5	12.0
EV / Cap. Empl. (x)	5.1	5.0
OpFCF Yield (%)	7.7	9.4
P / E (x)	28.5	21.8
P / BV (x)	4.4	3.6
Div. Yield. (%)	0.0	0.0

Source: Value Track

Investment case

Since our in-depth equity research published back in July'20, following the finalization of Seeweb reverse takeover, DHH share price has increased by ca. 40%, supported by a significant increase in trading volumes.

DHH: Shares up ca. 40% y/y, driven by higher volumes



Source: Value Track Analysis

Despite the share price increase, DHH is still trading at undemanding 2021E market multiples: 5.6x EV/EBITDA and 8.0x EV/OpFCF, which underestimate in our view the following key points:

- ◆ Subscription business model which allows high business visibility (ca. 90% incidence of Annual Recurring Revenues) and scalability;
- ◆ EBITDA margin in excess of 35%;
- ◆ EBITDA to Cash conversion at 75% in 2021E.

We confirm our €18.5 fair value which would imply a multiple expansion up to ca. 9.7x EV/EBITDA and 14.0x EV/OpFCF, according to our 2021 estimates.

DHH: Investment highlights

Well-established player in the cloud-computing space	<ul style="list-style-type: none"> • Leading position in South-East Europe • Proprietary solutions delivered to 100,000+ customers, with eleven brands under management • Extensive physical and network infrastructures
Highly scalable and profitable business model	<ul style="list-style-type: none"> • Easily scalable business, derived by a subscription business model • High incidence of recurring revenues • High client retention with long revenue periods, fueled by an extremely low churn rate
Favourable market stance	<ul style="list-style-type: none"> • Exposure to a growing & resilient market, driven by digital transformation • Cloud computing services facing a stronger and stronger market demand
High profitability & strong cash generation	<ul style="list-style-type: none"> • EBITDA margin above in the 34-36% level with no capitalization at all • Low Capex requirements, lead to a sound EBITDA to cash conversion

Source: Value Track Analysis

Appendix: 4Q-FY20 Gross Sales at a glance

DHH Group: 4Q/FY Pro-Forma Gross Sales

(€mn)	4Q19	4Q20	Δ YoY		FY19	FY20	Δ YoY
Italy	3.07	3.21	4.5%		11.89	12.32	3.7%
Slovenia	0.55	0.56	1.2%		1.80	2.11	17.1%
Croatia	0.63	0.60	-4.1%		2.28	2.32	2.0%
Serbia	0.19	0.18	-0.4%		0.60	0.64	6.9%
Switzerland	0.15	0.20	32.4%		0.38	0.74	93.9%
Total Gross Sales	4.60	4.76	3.6%		16.95	18.14	7.0%

Source: DHH Group

DHH Group: YoY Gross Sales evolution in 2020 (%)

(%)	1Q20	2Q20	3Q20	4Q20	FY20
Italy	3.0%	4.8%	2.5%	4.5%	3.7%
Slovenia	23.2%	23.2%	26.1%	1.2%	17.1%
Croatia	4.8%	2.6%	5.4%	-4.1%	2.0%
Serbia	5.1%	22.7%	4.4%	-0.4%	6.9%
Switzerland	>100%	>100%	54.8%	32.4%	93.9%
Total Gross Sales	8.9%	9.6%	6.5%	3.6%	7.0%

Source: DHH Group

DISCLAIMER

THIS DOCUMENT IS PREPARED BY VALUE TRACK S.R.L. THIS DOCUMENT IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION ON A CONFIDENTIAL BASIS AND MAY NOT BE REPRODUCED, REDISTRIBUTED OR PASSED ON, IN WHOLE OR IN PART, TO ANY OTHER PERSON. IN PARTICULAR, NEITHER THIS DOCUMENT NOR ANY COPY THEREOF MAY BE TAKEN OR TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, INTO CANADA OR JAPAN OR AUSTRALIA TO ANY RESIDENT THEREOF OR INTO THE UNITED STATES, ITS TERRITORIES OR POSSESSIONS. THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTION. ANY FAILURE TO COMPLY WITH THESE RESTRICTIONS MAY CONSTITUTE A VIOLATION OF THE LAWS OF ANY SUCH OTHER JURISDICTION. THIS DOCUMENT DOES NOT CONSTITUTE OR FORM PART OF, AND SHOULD NOT BE CONSTRUED AS, AN OFFER, INVITATION OR INDUCEMENT TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES, AND NEITHER THIS DOCUMENT NOR ANYTHING CONTAINED HEREIN SHALL FORM THE BASIS OF OR BE RELIED ON IN CONNECTION WITH OR ACT AS AN INVITATION OR INDUCEMENT TO ENTER INTO ANY CONTRACT OR COMMITMENT WHATSOEVER. THIS DOCUMENT HAS NOT BEEN PUBLISHED GENERALLY AND HAS ONLY BEEN MADE AVAILABLE TO INSTITUTIONAL INVESTORS. IN MAKING AN INVESTMENT DECISION, POTENTIAL INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND ITS GROUP INCLUDING THE MERITS AND RISKS INVOLVED. THIS DOCUMENT IS FOR DISTRIBUTION IN OR FROM THE UNITED KINGDOM ONLY TO PERSONS WHO: (I) HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE “**FINANCIAL PROMOTION ORDER**”), (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (“HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC.”) OF THE FINANCIAL PROMOTION ORDER, (III) ARE OUTSIDE THE UNITED KINGDOM, OR (IV) ARE PERSONS TO WHOM AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000) IN CONNECTION WITH THE ISSUE OR SALE OF ANY SECURITIES MAY OTHERWISE LAWFULLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). THIS DOCUMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. IN ITALY THIS DOCUMENT IS BEING DISTRIBUTED ONLY TO, AND IS DIRECTED AT QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 100 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS AMENDED, AND ARTICLE 34-TER, PARAGRAPH 1, LETTER B), OF CONSOB REGULATION ON ISSUERS NO. 11971 OF MAY 14, 1999, AS SUBSEQUENTLY AMENDED (THE “**ISSUERS’ REGULATION**”) PROVIDED THAT SUCH QUALIFIED INVESTORS WILL ACT IN THEIR CAPACITY AND NOT AS DEPOSITARIES OR NOMINEES FOR OTHER SHAREHOLDERS, SUCH AS PERSONS AUTHORISED AND REGULATED TO OPERATE IN FINANCIAL MARKETS, BOTH ITALIAN AND FOREIGN, I.E.: A) BANKS; B) INVESTMENT FIRMS; C) OTHER AUTHORISED AND REGULATED FINANCIAL INSTITUTIONS; D) INSURANCE COMPANIES; E) COLLECTIVE INVESTMENT UNDERTAKINGS AND MANAGEMENT COMPANIES FOR SUCH UNDERTAKINGS; F) PENSION FUNDS AND MANAGEMENT COMPANIES FOR SUCH FUNDS; G) DEALERS ACTING ON THEIR OWN ACCOUNT ON COMMODITIES AND COMMODITY-BASED DERIVATIVES; H) PERSONS DEALING EXCLUSIVELY ON THEIR OWN ACCOUNT ON FINANCIAL INSTRUMENTS MARKETS WITH INDIRECT MEMBERSHIP OF CLEARING AND SETTLEMENT SERVICES AND THE LOCAL COMPENSATORY AND GUARANTEE SYSTEM; I) OTHER INSTITUTIONAL INVESTORS; L) STOCKBROKERS; (2) LARGE COMPANIES WHICH AT INDIVIDUAL COMPANY LEVEL MEET AT LEAST TWO OF THE FOLLOWING REQUIREMENTS: – BALANCE SHEET TOTAL: 20,000,000 EURO, – NET REVENUES: 40,000,000 EURO, – OWN FUNDS: 2,000,000 EURO; (3) INSTITUTIONAL INVESTORS WHOSE MAIN ACTIVITY IS INVESTMENT IN FINANCIAL INSTRUMENTS, INCLUDING COMPANIES DEDICATED TO THE SECURITISATION OF ASSETS AND OTHER FINANCIAL TRANSACTIONS (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS. THIS DOCUMENT IS NOT ADDRESSED TO ANY MEMBER OF THE GENERAL PUBLIC IN ITALY. UNDER NO CIRCUMSTANCES SHOULD THIS DOCUMENT CIRCULATE AMONG, OR BE DISTRIBUTED IN ITALY TO (I) A MEMBER OF THE GENERAL PUBLIC, (II) INDIVIDUALS OR ENTITIES FALLING OUTSIDE THE DEFINITION OF “QUALIFIED INVESTORS” AS SPECIFIED ABOVE OR (III) DISTRIBUTION CHANNELS THROUGH WHICH INFORMATION IS OR IS LIKELY TO BECOME AVAILABLE TO A LARGE NUMBER OF PERSONS. THIS DOCUMENT IS BEING DISTRIBUTED TO AND IS DIRECTED ONLY AT PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (“**EEA**”) WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE (DIRECTIVE 2003/71/EC), (“**QUALIFIED INVESTORS**”). ANY PERSON IN THE EEA WHO RECEIVES THIS DOCUMENT WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A QUALIFIED INVESTOR. ANY SUCH RECIPIENT WILL ALSO BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT HAS NOT RECEIVED THIS DOCUMENT ON BEHALF OF PERSONS IN THE EEA OTHER THAN QUALIFIED INVESTORS OR PERSONS IN THE UK, ITALY AND OTHER MEMBER STATES (WHERE EQUIVALENT LEGISLATION EXISTS) FOR WHOM THE INVESTOR HAS AUTHORITY TO MAKE DECISIONS ON A WHOLLY DISCRETIONARY BASIS. THE COMPANY, VALUE TRACK S.R.L. AND THEIR AFFILIATES, AND OTHERS WILL RELY UPON THE TRUTH AND ACCURACY OF THE FOREGOING REPRESENTATIONS AND AGREEMENTS. ANY PERSON IN THE EEA WHO IS NOT A QUALIFIED INVESTOR SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS. THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC (AND AMENDMENTS THERETO, INCLUDING THE 2010 PD AMENDING DIRECTIVE, TO THE EXTENT IMPLEMENTED IN THE RELEVANT MEMBER STATE), AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN THE RELEVANT MEMBER STATE AND THE EXPRESSION “2010 PD AMENDING DIRECTIVE” MEANS DIRECTIVE 2010/73/EU. **DHH SPA (THE “COMPANY”) IS A RESEARCH CLIENT OF VALUE TRACK S.R.L.** HOWEVER ANY FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE ENTIRELY THOSE OF VALUE TRACK S.R.L. AND ARE GIVEN AS PART OF ITS NORMAL RESEARCH ACTIVITY AND SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORISED OR APPROVED BY ANY OTHER PERSON. VALUE TRACK S.R.L. HAS NO AUTHORITY WHATSOEVER TO MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY, ITS SHAREHOLDERS, ANY OF ITS ADVISORS, OR ANY OTHER PERSON IN CONNECTION THEREWITH. WHILE ALL REASONABLE CARE HAS BEEN TAKEN TO ENSURE THAT THE FACTS STATED HEREIN ARE ACCURATE AND THAT THE FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE FAIR AND REASONABLE, VALUE TRACK S.R.L. HAS NOT VERIFIED THE CONTENTS HEREOF AND ACCORDINGLY NONE OF VALUE TRACK S.R.L., THE COMPANY, ITS SHAREHOLDERS, ANY ADVISORS TO THE COMPANY OR ITS SHAREHOLDERS OR ANY OTHER PERSON IN CONNECTION THEREWITH NOR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS OR EMPLOYEES, SHALL BE IN ANY WAY RESPONSIBLE FOR THE CONTENTS HEREOF AND NO RELIANCE SHOULD BE PLACED ON THE ACCURACY, FAIRNESS, OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DOCUMENT. NO PERSON ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM THE USE OF THIS DOCUMENT OR OF ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH. TO THE EXTENT PERMITTED BY LAW AND BY REGULATIONS, VALUE TRACK S.R.L. (OR ITS OFFICERS, DIRECTORS OR EMPLOYEES) MAY HAVE A POSITION IN THE SECURITIES OF (OR OPTIONS, WARRANTS OR RIGHTS WITH RESPECT TO, OR INTEREST IN THE SHARES OR OTHER SECURITIES OF) THE COMPANY AND MAY MAKE A MARKET OR ACT AS A PRINCIPAL IN ANY TRANSACTIONS IN SUCH SECURITIES.