

DHH

Sector: Internet Software and Services

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Positive news flow to support stock price

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

1Q21 Gross Sales up 7% y/y

DHH announced 1Q21 gross sales figures at €4.9mn, up high single-digit (+7% y/y) and almost in line with our 21E full-year expectation (+9% y/y). The highest growth rate was achieved in the Slovenian market, with Gross Sales up +13% y/y (€0.6mn), basically growing at the same pace of FY20PF. The largest y/y growth was recorded in Italy (+ca. €200K y/y) at €3.2mn, with positive results likely due to a further increase in customer base. Encouraging results also in Croatia, +8% y/y (€0.7mn), underlying a steady growth of market share. Conversely, Gross Sales in Serbia and Switzerland came in below our 21E forecasts, i.e., -6% y/y (€0.2mn) and +5% y/y (€0.2mn) respectively, anyway quite small quarterly numbers inevitably lead to high volatility in growth rates.

M&A: 14 deals since inception (2015)

The Group has recently acquired the assets of MondoServer, a cloud hosting cloud computing provider active on the Italian market. Despite the relatively small size of the deal (we estimate revenues 2020 lower than €0.3mn), it should help DHH to strengthen its market position in the South of Italy, a geographical area where market demand and adoption rate of cloud computing products grew significantly over the latest 5 years.

Warrants likely to be converted in the next months

As of today, there are #1.4mn outstanding in-the-money warrants, which based on €15.6 strike price (avg. monthly price recorded in April) and implicit 25.6% conversion rate, would lead to 0.38mn new issuing shares (i.e.~ 8% dilution). Given the forthcoming maturity (July '21), we expect a significant subscription rate along the next months.

Fair value confirmed at €20.4

DHH share price has recently reached its peak at €16.1 p/s, following the release of remarkable FY20PF financial figures. At current €15.2 p/s the stock is trading at undemanding valuation (8.2x-6.7x EV/EBITDA 21E-22E), given the: i) double-digit growth expected at both top- and bottom-line, ii) strong revenue visibility (~90% recurring) and, ii) best in class profitability (EBITDA margin ~38) and cash flow generation (~€7.5mn cumulated FCF in 21E-22E). We confirm our €20.4 fair value p/s.

Fair Value (€)	20.4
Market Price (€)	15.2
Market Cap. (€m)	68.7

KEY FINANCIALS (€mn)	2020PF	2021E	2022E
REVENUES	18.1	19.8	22.5
EBITDA	6.8	7.4	8.5
EBIT	3.8	4.4	5.6
NET PROFIT	2.6	2.9	3.8
EQUITY	16.4	19.3	23.1
NET FIN. POS.	1.5	5.2	8.9
EPS (€)	0.57	0.65	0.85
CASH DPS (€)	0.0	0.0	0.0

Source: DHH (2020PF), Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2020PF	2021E	2022E
EBITDA MARGIN (%)	37.8	37.5	38.0
EBIT MARGIN (%)	20.9	22.1	24.9
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x) (*)	3.4	3.1	2.5
EV/EBITDA (x) (*)	9.0	8.2	6.7
EV/EBIT (x) (*)	16.2	13.9	10.2

Source: DHH (2020PF), Value Track (2021E-22E estimates)

(*) EV adjusted for peripherals and treasury shares

STOCK DATA

FAIR VALUE (€)	20.4
MARKET PRICE (€)	15.2
SHS. OUT. (m)	4.5
MARKET CAP. (€m)	68.7
FREE FLOAT (%)	21.6
AVG. -10D VOL. (#)	2,711
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	6.80-16.10

Source: Stock Market Data



Business Description

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.

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 benefiting from the natural growth trend already in place.

Key Financials

€ mn	2019A PF	2020A PF	2021E	2022E
Total Revenues	16.8	18.1	19.8	22.5
Chg. % YoY	6%	8%	9%	14%
EBITDA	5.6	6.8	7.4	8.5
<i>EBITDA Margin (%)</i>	33.5%	37.8%	37.5%	38.0%
EBIT	2.5	3.8	4.4	5.6
<i>EBIT Margin (%)</i>	15.1%	20.9%	22.1%	24.9%
Net Profit	1.8	2.6	2.9	3.8
Chg. % YoY	8%	45%	14%	30%
Adjusted Net Profit	1.8	2.6	2.9	3.8
Chg. % YoY	8%	45%	14%	30%
Net Fin. Position	-2.2	1.5	5.2	8.9
Net Fin. Pos. / EBITDA (x)	0.4x	nm	nm	nm
Capex	-0.8	-1.2	-2.3	-3.7
OpFCF b.t.	5.7	5.3	5.1	5.5
OpFCF b.t. as % of EBITDA	101%	78%	69%	65%

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

Investment case

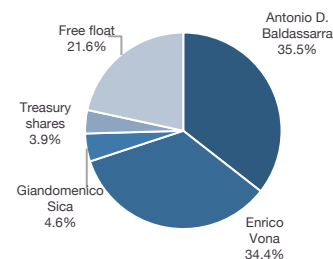
Strengths / Opportunities

- ◆ 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

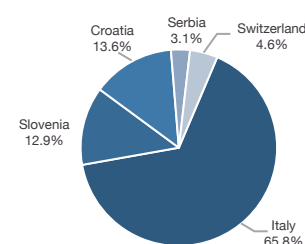
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



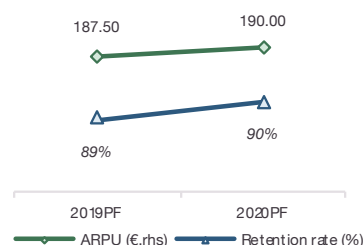
Source: DHH

Sales breakdown by country



Source: DHH

ARPU (€) and Retention rate (%)



Source: DHH SpA

Stock multiples @ €20.4 Fair Value

	2021E	2022E
EV / SALES (x)	4.2	3.5
EV / EBITDA (x)	11.1	9.3
EV / EBIT (x)	19.1	14.2
EV / Cap. Empl. (x)	5.9	5.6
OpFCF Yield (%)	6.0	6.8
P / E (x)	31.3	24.0
P / BV (x)	4.8	4.0
Div. Yield. (%)	0.0	0.0

Source: Value Track

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