

DHH Group

Sector: Internet Software and Services



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3Q/9M21 Gross Sales steadily growing

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

Steady and healthy turnover growth in 3Q/9M21

In line with previous quarters figures, DHH business turnover kept growing at high single-digit pace, confirming a good business resiliency despite some unfavourable seasonality historically faced in 3Q.

YTD Gross Sales came in at €14.4mn (+7.6% y/y), with positive results recorded across all geographies where the Group is currently active.

Foreign Gross Sales stood at €4.8mn (+11.6% y/y), with Slovenia, Serbia and Switzerland steadily growing at double-digit pace quarter by quarter YTD, while the Serbian subsidiary (mCloud) – operating in the cloud computing space and basically flat y/y – is gradually recovering from weak 1Q21 impacted by the negative market stance linked to pandemic.

On the domestic side, Italian Gross Sales were up mid-single digit (+5.7% y/y) at €9.6mn YTD, thus achieving a new all-time high by the end of Sep’21.

Estimates unchanged

9M21 interim results are in line with our 2021E year-end €19.6mn revenue estimate, which imply a +6.9% y/y revenue growth in 4Q21. We are just fine tuning our estimates across geographies to factor in a slightly different revenue mix, with higher contribution of foreign sales at the expense of the domestic business.

We remind that our 2021E-23E forecasts imply (i) 10% revenues CAGR20-23E up to €24.2mn, (ii) EBITDA in excess of €9mn by 2023E (EBITDA margin at 38.5%) together with a (iii) sound operating FCF generation (ca. €11mn cumulated) leaving room for potential M&A.

€22.5 fair value per share confirmed

We leave unchanged our fair equity value at €22.5 p/s. Our fair value would imply 11.6x EV/EBITDA and 5.4% OpFCF yield 22E, completely deserved considering (i) the strong revenue visibility, (ii) best-in-class profitability and cash generation, and lastly (iii) M&A value creation.

As far as the latest point is concerned, we calculate that further €2.6-€4.7 additional value per share can arise if DHH successfully employs the current cash availabilities in potential M&A deals finalized at multiples in line with historical ones (ca. 5x EV/EBITDA on average).

Fair Value (€) **22.5**

Market Price (€) **16.0**

Market Cap. (€m) **78.3**

KEY FINANCIALS (€mn)	2020PF	2021E	2022E
REVENUES	18.1	19.6	22.3
EBITDA	6.8	7.4	8.5
EBIT	3.8	4.2	5.4
NET PROFIT	2.6	3.7	3.7
EQUITY	16.4	20.0	23.7
NET FIN. POS.	1.5	4.2	7.9
EPS (€)	0.57	0.75	0.76
DPS (€)	0.0	0.0	0.0

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

RATIOS & MULTIPLES	2020PF	2021E	2022E
EBITDA MARGIN (%)	37.8	37.5	38.0
EBIT MARGIN (%)	20.9	21.3	24.2
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x) (**)	3.6	3.6	3.0
EV/EBITDA (x) (**)	9.5	9.6	7.9
P/E (x) (**)	28.0	27.9	21.1

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

(*) EV adjusted for peripherals and treasury shares

STOCK DATA

FAIR VALUE (€)	22.5
MARKET PRICE (€)	14.9
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	72.9
FREE FLOAT (%)	23.6
AVG. -20D VOL. (#)	1,418
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	9.52-16.70

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 six countries (Croatia, Italy, Serbia, Slovenia, Bosnia-Herzegovina and Switzerland).

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

Key Financials

€mn	2020A PF	2021E	2022E	2023E
Total Revenues	18.1	19.6	22.3	24.2
Chg. % YoY	8%	nm	13.6%	8.6%
EBITDA	6.8	7.4	8.5	9.3
EBITDA Margin (%)	37.8%	37.5%	38.0%	38.5%
EBIT	3.8	4.2	5.4	6.1
EBIT Margin (%)	20.9%	21.3%	24.2%	25.1%
Net Profit	2.6	3.7	3.7	4.2
Chg. % YoY	45%	nm	1.4%	13.4%
Adjusted Net Profit	2.6	2.8	3.7	4.2
Chg. % YoY	45%	nm	32.3%	13.4%
Net Fin. Position	1.5	4.2	7.9	12.6
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-1.2	-2.6	-3.7	-3.0
OpFCF b.t.	5.3	4.7	5.4	6.6
OpFCF b.t. as % of EBITDA	78%	63.7%	63.2%	70.7%

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

Investment case

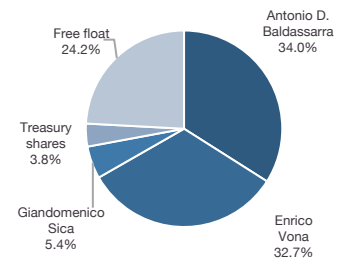
Strengths / Opportunities

- ◆ 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

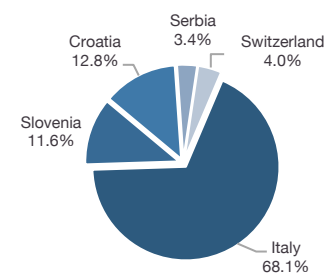
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



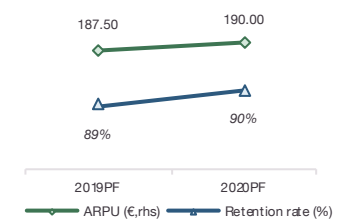
Source: DHH Group

Sales breakdown by country



Source: DHH SpA

ARPU (€) and Retention rate (%)



Source: DHH SpA

Stock multiples @ €22.5 Fair Value

	2021E	2022E
EV / SALES (x)	5.2	4.4
EV / EBITDA (x)	13.9	11.6
EV / EBIT (x)	24.5	18.3
EV / Cap. Empl. (x)	6.5	6.2
OpFCF Yield (%)	4.6	5.4
P / E (x)	30.1	29.7
P / BV (x)	5.5	4.6
Div. Yield. (%)	0.0	0.0

Source: Value Track

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