

DHH Group

Sector: Internet Software and Services



Analysts

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Fair Value (€) **24.0**

Market Price (€) **15.5**

Market Cap. (€m) **75.8**

Putting money at work

Evolink: one of the largest IaaS providers Bulgarian-based

DHH has acquired a 60% stake in Evolink AD, one of the leading independent Bulgarian-based IaaS provider active in:

- 1) Cloud computing (cloud servers, cloud backup);
- 2) Cybersecurity (email protection, DDoS protection, firewalls);
- 3) Provisioning of data transport services (from simple internet connectivity to advanced online streaming technology).

Evolink directly manages two data centers based in Bulgaria, and owns a virtual pan-European internet backbone connected to important foreign exchange points.

The company is expected to achieve €3.2mn turnover, €234K EBITDA in 2021E, combined with a >100% FCF/EBITDA ratio, i.e. Net Cash expected to increase by €360K up to €895K at the end of the year.

DHH has paid the 60% stake some €2.45mn in cash and the deal also includes an earn-out on the remaining 40% stake, based on undisclosed financial targets to be achieved over the next three years.

Thanks to this deal, DHH is further enhancing its growth prospects by entering:

- 1) a new promising geographic area, i.e. Bulgaria;
- 2) new interesting markets segments not currently addressed such as the provisioning of connectivity services.

Overall, we expect Evolink to boost DHH EBITDA and OpFCF by 6% and 9% on average in the 2022E-23E.

Errera, brilliant example of corporate venture capital deal

Also in the recent days, DHH has announced that Errera, the startup backed by DHH, has completed its business combination with Icona Technology, a scale-up focused on Augmented Reality for Remote Assistance, and has successfully gone public on the Vienna Stock Exchange with a €28mn market capitalization. We remind that DHH a few months ago invested a total consideration of €500K in the deal, now worth approximately €1.5mn.

Fair value per share revised up at €24.0 (from €22.5)

We update our valuation to factor in the M&A and the intrinsic capital gain (valued as peripheral asset) in Errera.

We revise our fair value at €24 p/s, given by the simple average between peers' analysis (€21.6 p/s) and DCF (€26.5 p/s).

At fair value, the stock would trade at 12.1x EV/EBITDA and 30.9x P/E 22E.

KEY FINANCIALS (€mn)	2020PF	2021E	2022E
REVENUES	18.1	19.6	25.9
EBITDA	6.8	7.4	9.0
EBIT	3.8	4.2	5.6
NET PROFIT	2.6	3.7	3.8
EQUITY	16.4	20.3	23.7
NET FIN. POS.	1.5	2.4	6.5
EPS (€)	0.57	0.75	0.89
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	34.6
EBIT MARGIN (%)	20.9	21.3	21.7
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x) (**)	3.6	3.6	2.6
EV/EBITDA (x) (**)	9.5	9.6	7.5
P/E (x) (**)	28.0	27.0	19.9

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

(*) EV adjusted for peripherals, minorities, and treasury shares

STOCK DATA

FAIR VALUE (€)	24.0
MARKET PRICE (€)	15.5
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	75.8
FREE FLOAT (%)	24.2
AVG. -20D VOL. (#)	10,313
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	10.20-16.70

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 seven countries (Croatia, Italy, Serbia, Slovenia, Bosnia-Herzegovina, Bulgaria 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	25.9	28.2
Chg. % YoY	8%	nm	31.8%	9.1%
EBITDA	6.8	7.4	9.0	10.0
EBITDA Margin (%)	37.8%	37.5%	34.6%	35.2%
EBIT	3.8	4.2	5.6	6.5
EBIT Margin (%)	20.9%	21.3%	21.7%	22.9%
Net Profit	2.6	3.7	3.8	4.4
Chg. % YoY	45%	nm	4.0%	14.9%
Adjusted Net Profit	2.6	2.8	3.8	4.4
Chg. % YoY	45%	nm	35.7%	14.9%
Net Fin. Position	1.5	2.4	6.5	11.8
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-1.2	-2.6	-3.8	-3.1
OpFCF b.t.	5.3	4.9	5.8	7.3
OpFCF b.t. as % of EBITDA	78%	66.4%	65.1%	73.0%

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

Investment case

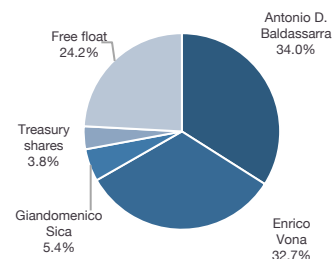
Strengths / Opportunities

- ◆ 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

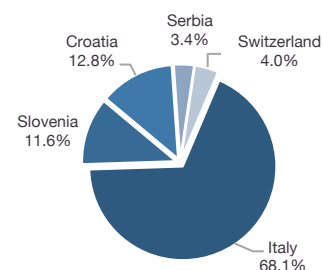
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



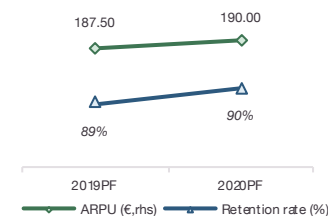
Source: DHH

Sales breakdown by country



Source: DHH

ARPU (€) and Retention rate (%)



Source: DHH

Stock multiples @ €24.0 Fair Value

	2021E	2022E
EV / SALES (x)	5.7	4.2
EV / EBITDA (x)	15.3	12.1
EV / EBIT (x)	26.9	19.3
EV / Cap. Empl. (x)	6.3	6.1
OpFCF Yield (%)	4.3	5.4
P / E (x)	32.1	30.9
P / BV (x)	5.9	4.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

Evolink Acquisition: Estimated impact on DHH key financials (based on Value Track assumptions) (*)

(€mn)	DHH "as is"			Evolink			DHH + Evolink		
	2021E	2022E	2023E	2021E	2022E	2023E	2021PFE	2022E	2023E
Revenues	19.6	22.3	24.2	3.2	3.6	4.0	22.8	25.9	28.2
<i>y/y change (%)</i>	9%	14%	9%	7%	12%	12%	16%	13%	9%
EBITDA	7.4	8.5	9.3	0.2	0.4	0.6	7.6	9.0	10.0
EBIT	4.2	5.4	6.1	0.0	0.2	0.4	4.2	5.6	6.5
EBT	4.0	5.3	6.0	0.0	0.2	0.4	4.1	5.5	6.4
Net Profit	3.7	3.7	4.2	0.0	0.2	0.3	3.7	3.8	4.4
Adj. Net Profit	2.8	3.7	4.2	0.0	0.2	0.3	2.8	3.8	4.4
NFP [i.e. Net Debt (-) Cash (+)]	4.2	7.9	12.6	0.9	1.3	1.9	2.4	6.5	11.8

Source: Value Track Analysis (*) 2021 PF assuming the consolidation of Evolink from Jan 2021

Evolink Acquisition: Estimated impact on DHH valuation (based on Value Track assumptions) (*)

(€mn)	DHH "as is"			Evolink			DHH + Evolink		
	2021E	2022E	2023E	2021E	2022E	2023E	2021PFE	2022E	2023E
EPS ADJ.	0.57	0.76	0.86	--	--	--	0.75	0.78	0.89
CEPS	1.42	1.41	1.55	--	--	--	1.42	1.50	1.66
P/E	27.0	20.4	18.0	--	--	--	27.0	19.9	17.3
EV/Sales	3.5	2.9	2.5	--	--	--	3.6	2.6	2.2
EV/EBITDA	9.3	7.6	6.4	--	--	--	9.6	7.5	6.2
EV/EBIT	16.3	12.0	9.8	--	--	--	16.9	11.9	9.5
EV/Cap. Employed	4.3	4.1	3.9	--	--	--	4.0	3.8	3.6
OpFCF Yield (%)	6.7	8.1	10.8	--	--	--	7.1	8.5	11.6
FCF Yield (%)	5.3	4.7	6.1	--	--	--	5.6	5.2	6.8

Source: Value Track Analysis (*) 2021 PF assuming the consolidation of Evolink from Jan 2021

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